inter pipeline fund annual report 02

Inter Pipeline holds an 85% interest in the Cold Lake Pipeline Limited Partnership. This Partnership owns the Cold Lake Pipeline System that is designed to move heavy oil from the Cold Lake region of Alberta to terminals at Hardisty and Edmonton.

Cold Lake Pipeline System

920 km (572 miles)
2002 throughput: 211.4 Mbbl/d

A condensate feeder pipeline system in southwestern Alberta, this pipeline receives condensate originating at the Shell Waterton Gas Plant, the Shell Jumping Pound Gas Plant and the Petro-Canada Wildcat Hills Gas Plant for delivery to Pembina's Cremona Pipeline at Madden.

Valley Pipeline System

241 km (151 miles)
2002 throughput: 5.4 Mbbl/d

This crude oil feeder pipeline and gathering system collects light sour crude oil from producing fields in south-central Alberta for delivery to Edmonton.

Central Alberta Pipeline System

539 km (337 miles)
2002 throughput: 29.0 Mbbl/d

This pipeline system gathers and transports Bow River stream and light sour crude oil from producing fields in southeastern Alberta for delivery north to the Gibson Terminal at Hardisty, Alberta, and south for delivery to refineries in the United States through a connection with the Plains Marketing Canada L.P. pipeline at Milk River, Alberta.

Bow River Pipeline System

2,870 km (1,794 miles)
2002 throughput: 146.5 Mbbl/d

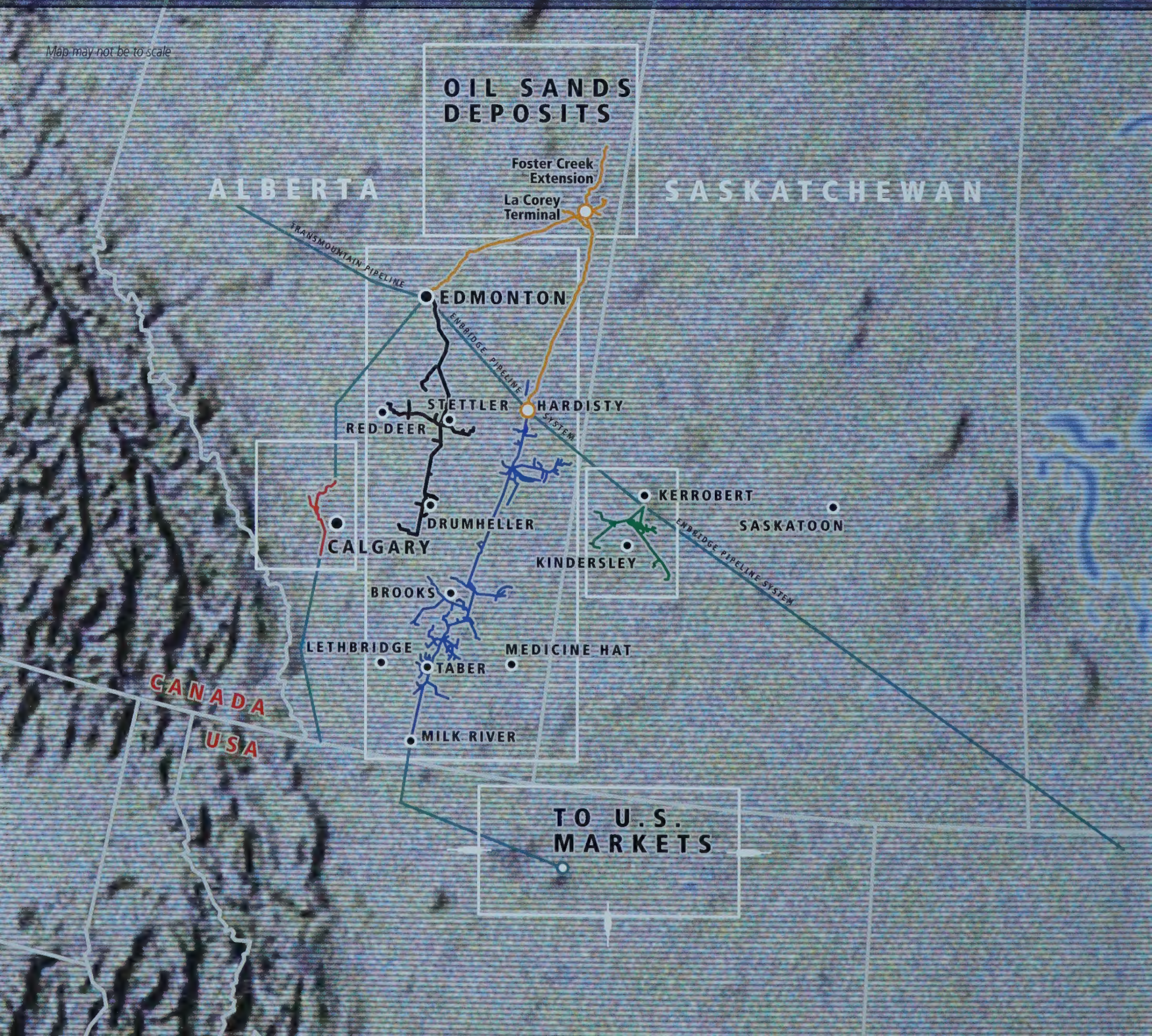
This crude oil pipeline and gathering system collects heavy blend and light sweet crude oil.

Mid-Saskatchewan Pipeline System

555 km (347 miles)
2002 throughput: 34.3 Mbbl/d

OPERATING SYSTEM

Inter Pipeline Fund owns and operates four feeder pipeline systems located in southern Alberta and southwestern Saskatchewan, as well as operates and owns a majority interest in Canada's largest heavy oil gathering system, located in Alberta's Cold Lake region.



($ thousands except per unit amounts)		2001
Throughput volume (Mbbl/d)		235.0
Revenue	$	92,053
Operating expenses		(33,999)
General and administrative expenses		(4,045)
Net income		8,151
Capital expenditures incurred		(22,649)
Distributable Cash paid/payable		49,776
Per Class A and B unit amounts:		
Net income	$	0.11
Distributable Cash paid/payable	$	0.68

In a challenging year, we dramatically grew the partnership, increased our revenue and paid distributions of $0.68 per unit to our unitholders.

February 24, 2003
Inter Pipeline sells 18.6 million Class A limited liability partnership units ('Class A units') at $6.20 per Class A unit, for gross proceeds of $115 million.

January 2, 2003
Inter Pipeline closes the acquisition of EnCana Corporation's 70% interest in the Cold Lake Pipeline Limited Partnership and assumes operatorship.

December 20, 2002
Inter Pipeline successfully closes its $138 million, 10% Convertible Debenture offering. The proceeds from this offering are used to partially finance the Cold Lake acquisition.

November 19, 2002
Inter Pipeline announces the strategic acquisition of EnCana Corporation's 70% interest in the Cold Lake Pipeline Partnership, which owns Canada's largest heavy oil gathering system, the Cold Lake Pipeline System, for $422.5 million cash. This transaction increases our ownership interest in the Cold Lake Pipeline System to 85% from 15%, and results in Inter Pipeline replacing EnCana Corporation as operator of the system.

November 15, 2002
Inter Pipeline begins trading on the TSX under the symbol IPL.UN.

October 22, 2002
The sale of the general partner, Koch Pipelines Canada Ltd. to Pipeline Assets Corp., an Alberta company controlled by John F. Driscoll, is completed. The general partner is renamed Pipeline Management Inc. ('General Partner'), and Koch Pipelines Canada, L.P. is renamed Inter Pipeline Fund ('Partnership').

July 15, 2002
The Hardisty Reversal Project is commissioned and southbound deliveries commence on the Bow River Pipeline System from Hardisty to Milk River, Alberta. During the second half of 2002, deliveries on the southbound system average 11,200 barrels per day, exceeding the anticipated 9,200 barrels per day initially committed to by shippers.

April 25, 2002
Koch Pipelines Canada Ltd. completes a secondary offering of 35.6 million Class A units, and reduces ownership interest to 0.1%.

With the changes of the past year, Inter Pipeline embraces the future renewed, refocused and transformed, with superior growth assets, a healthy balance sheet and strong management.

CONTENTS

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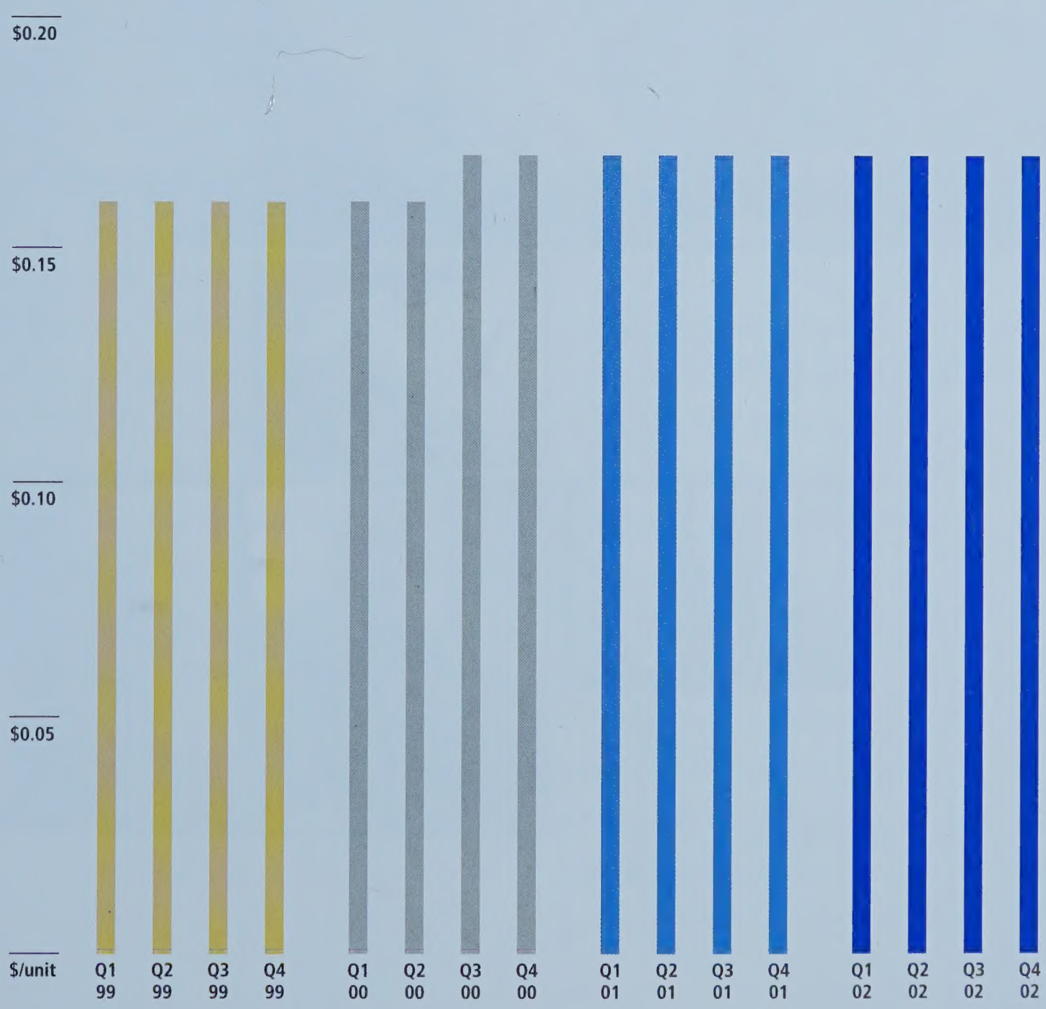
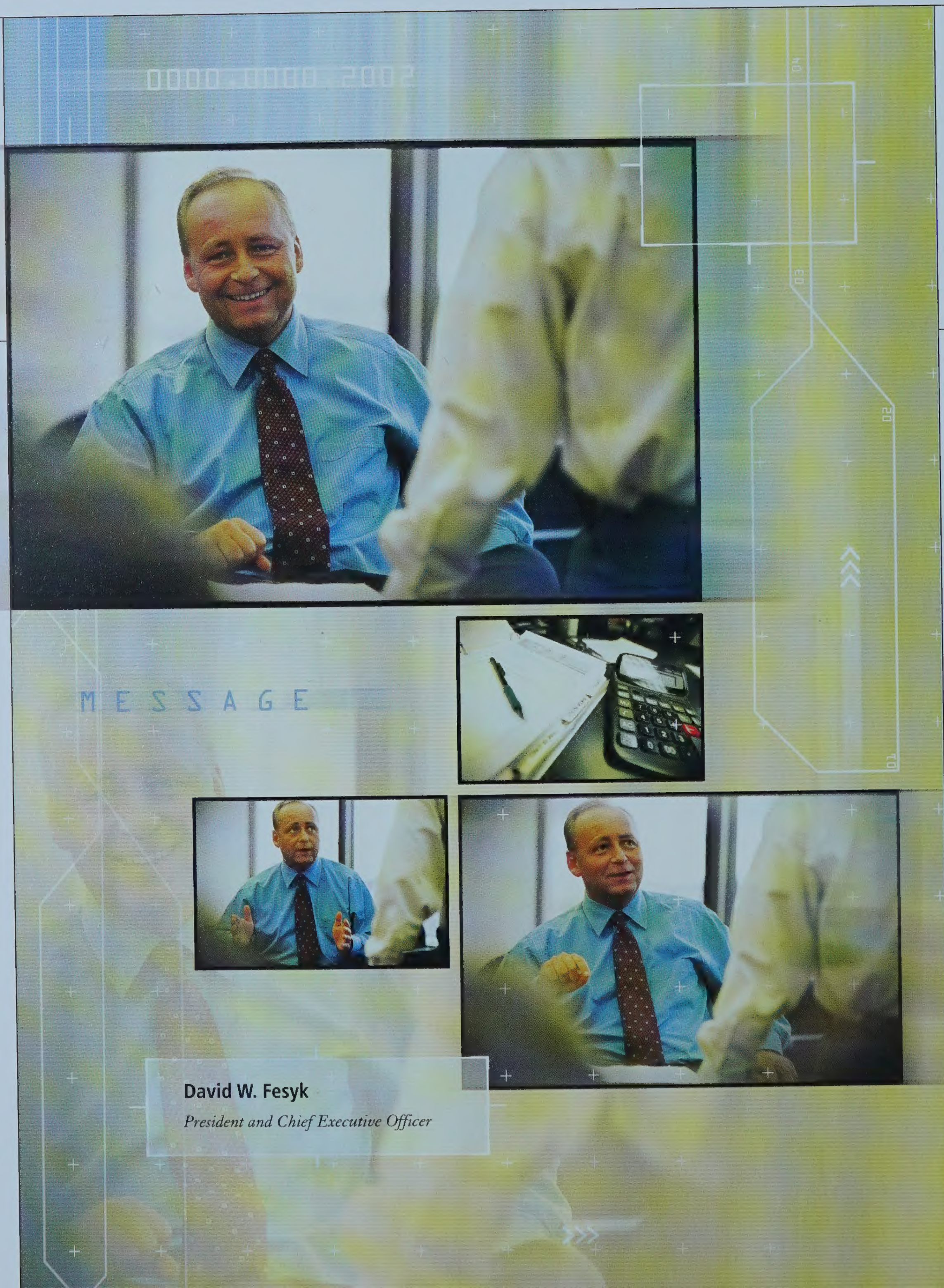
In 2002 we extended our track record of providing stable, tax efficient distributions to our unitholders. Last year the Partnership distributed $49.9 million, or $0.68 per unit, representing a pay out ratio of 93%.

QUARTERLY CASH DISTRIBUTIONS



The past year has clearly been the most active and rewarding period in our history. 2002 brought a lot of positive change to our organization, and with it has come a renewed sense of optimism.



David W. Fesyk
President and Chief Executive Officer

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Q: What changed at Inter Pipeline in 2002?

A: We completed the sale of the general partner, Koch Pipelines Canada Ltd. and changed our name to Inter Pipeline Fund. Not only did we rationalize and strengthen our established pipelines, we significantly expanded our interest in the Cold Lake Partnership, servicing Alberta's long-life oil sands reserves.

The past year has clearly been the most active and rewarding period in our history. We've experienced a lot of change in the last twelve months – the vast majority of which has been extremely positive.

Among the most noteworthy events in 2002 was a major change in the ownership structure of the Partnership. On October 22, 2002, the controlling interest in Koch Pipelines Canada Ltd. was sold to Pipeline Assets Corp. This transaction resulted in the formation of a new general partner and our recent name change to Inter Pipeline Fund.

The new General Partner, Pipeline Management Inc., has set a refreshing new direction for our business with a sharp focus on growth. The entirely new board of directors, chaired by John Driscoll, is comprised of very capable individuals with extensive experience in the energy industry and public markets. The stewardship of our business is in good hands.

Another major development in 2002 was our acquisition of EnCana Corporation's ('EnCana') 70% interest in the Cold Lake Pipeline Limited Partnership ('Cold Lake Partnership') in November. This material $422.5 million transaction significantly diversifies our operations and enhances the long-term cash flow profile of our business. We now hold an 85% interest in the Cold Lake Partnership, owner of the Cold Lake Pipeline System ('Cold Lake Pipeline'), Canada's largest heavy oil gathering system. The Cold

Throughout 2002 we maintained a strong focus on the business fundamentals that have fueled our success in the past.

Q: What are the plans for Inter Pipeline in 2003?

A: In the coming year we will work hard to capture additional growth investments and build on the momentum created through the Cold Lake acquisition. We will also be busy integrating our pipeline operations and consolidating remote monitoring and control operations.

Lake Partnership acquisition significantly increases the Partnership's participation in one of the fastest growing segments of Canada's energy industry.

Throughout 2002 we maintained a strong focus on the business fundamentals that have fueled our success in the past. For example, we further expanded deliveries on the Bow River Pipeline System ('Bow River Pipeline') to the growing Montana refining market. In July, we completed a $9.9 million mainline reversal project that essentially converted idle northbound capacity into a profitable new oil movement. This reconfiguration allows us to transport over 15,000 barrels per day of oil sourced at the market hub at Hardisty, Alberta for southbound shipment. The Hardisty Reversal Project establishes a new transportation corridor to connect refinery demand in Montana to long-term oil supply sources at Hardisty.

Our recent strategic capital investments should not overshadow many smaller but critically important accomplishments in 2002. We diligently managed the toll design on our systems and introduced new services to enhance our revenue base. We also used our creativity and expertise to find further operational efficiencies, while continuing to advance key pipeline integrity, environmental and safety programs. These accomplishments were highly instrumental in making sure that the Partnership extended its track record of providing regular, stable distributions to our unitholders.

We have never been more enthusiastic about our future, and I believe in the months to come you will share our confidence too.

Looking ahead, 2003 is shaping up to be another busy and exciting year at Inter Pipeline Fund. We will work hard to capture additional growth investments and build on the momentum created through the recent Cold Lake Partnership acquisition. We will also be busy integrating our pipeline operations, including the consolidation of all remote monitoring and control operations to the newly acquired Sherwood Park control centre.

As we enter 2003, activity in Canada's oil and gas industry is approaching record levels. We are optimistic that high energy commodity prices and strong producer net backs will continue to have a positive impact on our pipeline throughput volumes.

In closing, I want to acknowledge the strong effort and high degree of dedication displayed by the employees of Inter Pipeline Fund during 2002. The pending sale of the general partner, Koch Pipelines Canada Ltd., introduced a lot of uncertainty in our business for an extended period of time. Despite these uncertainties, our people remained focused on the right things and worked extra hard to position our business for a successful, material acquisition late in the year. Everyone should feel proud of what our team accomplished in 2002.

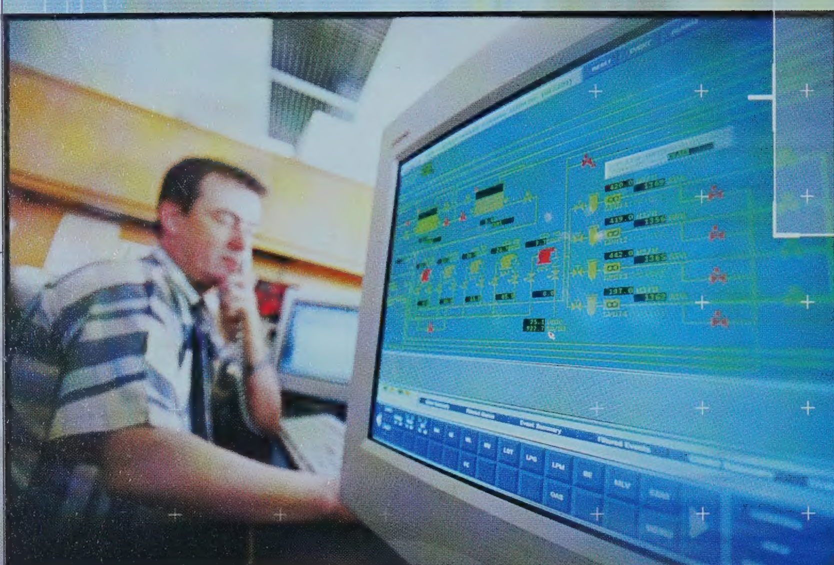
We have never been more enthusiastic about our future, and I believe in the months to come you will share our confidence too. On behalf of our board members and employees I thank you for continuing to place your trust in Inter Pipeline Fund. We are resolved to use our discipline, creativity and expertise to reward that trust today and for many, many years to come.

David Fesyk

David W. Fesyk
President and Chief Executive Officer

Inter Pipeline Fund,
by its General Partner,
Pipeline Management Inc.
April 11, 2003

The Cold Lake Pipeline is the dominant heavy oil gathering system in east central Alberta, transporting over 10% of all oil produced in western Canada.



With the Cold Lake transaction, the Partnership acquired a state-of-the-art pipeline operation control centre at Sherwood Park, Alberta.

COLD LAKE

Consolidation of control centre operations, expected to be completed by September 2003, will generate significant long-term operation synergies for Inter Pipeline.

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A Strategic Step Forward Inter Pipeline's acquisition of EnCana's 70% interest in the Cold Lake Partnership has fundamentally changed the complexion of our business. Our $422.5 million investment provides several strategic benefits including access to long-life oil sand reserves, high quality shipping contracts and excellent development potential. These features significantly strengthen Inter Pipeline's long-term cash flow profile.

The Cold Lake Pipeline is Canada's largest heavy oil gathering system. In 2002, the Cold Lake Pipeline transported 211,400 barrels per day to market hubs at Edmonton and Hardisty, Alberta. The system is comprised of over 900 kilometres of heavy oil blend and condensate pipelines and includes approximately 400,000 barrels of oil storage. At year-end, deliveries on the Cold Lake Pipeline averaged 233,800 barrels per day, representing over 10% of all oil produced in western Canada.

Long Life Reserves

The Cold Lake Pipeline is the primary transportation system in the Cold Lake region of east central Alberta. Oil sand deposits in this prolific production area are estimated to contain over 2 billion barrels of recoverable oil. David Fesyk commented, "Reserves in the Cold Lake region are very long life in nature. This provides an excellent fit with Inter Pipeline's strategy to invest in energy infrastructure with strong, sustainable cash flow characteristics."

Imperial Oil Limited ('Imperial'), Canadian Natural Resources Ltd. ('CNRL'), and EnCana are the dominant oil producers in the Cold Lake region. Each of these producers has dedicated production from oil reserves in east central Alberta to the Cold Lake Pipeline. A vast Reserves Dedication Area, spanning over 3 million acres of land, has been established around the oil-gathering infrastructure of the Cold Lake Pipeline. The existence of this dedication area substantially strengthens the long-term competitive position of the Cold Lake Pipeline.

COLD LAKE PIPELINE THROUGHPUT (Mbbl/d)

Designed and Built for Growth The Cold Lake Pipeline was designed to accommodate growth. System capacity can cost-effectively be expanded to over 700,000 barrels per day by simply adding new pump stations.

Contract-Based Cash Flow

Inter Pipeline's investment in the Cold Lake Partnership is underpinned by long-term shipping commitments from Imperial, CNRL and EnCana ('Founding Shippers'). These senior producers have agreed to ship an average of 332,600 barrels per day over the initial 10-year contract term. Shipping commitments escalate over time and, by 2007, will represent over 80% of capacity currently installed on the Cold Lake Pipeline.

The Transportation Service Agreement ('TSA') in place with the three Founding Shippers includes payment of a minimum annual service fee and the recovery of substantially all operating costs. Over the next five years, Inter Pipeline will be contractually entitled to an average minimum service fee of approximately $45.5 million annually. This amount is based on Inter Pipeline's current 85% ownership level in the Cold Lake Partnership.

Inter Pipeline will benefit from elevated service fees in the period from January 2003 through April 2005. During this period, Inter Pipeline's entitlement to service fees will include a capital recovery component that was previously contracted to the 70% Cold Lake Partnership interest acquired from EnCana. This service fee component represents the capital recovery amount, which EnCana would otherwise have collected through previous transportation contracts with the shippers on the Cold Lake Pipeline.

Strong Development Potential

The Cold Lake Pipeline is well positioned to capture growth opportunities that will benefit our unitholders in the years to come. For example, if the Founding Shippers are successful producing volumes in excess of minimum shipping commitments, Inter Pipeline will capture incremental cash flow.

The Cold Lake acquisition is an excellent fit with Inter Pipeline's strategy to invest in energy infrastructure with strong, sustainable cash flow characteristics.

Investing for the Future The oil sand corridor that extends from the Cold Lake region to the Fort McMurray area is relatively underdeveloped compared to other parts of the Western Canadian Sedimentary Basin. The Cold Lake Pipeline is well positioned to capture new oil gathering opportunities along this corridor.

In addition, Inter Pipeline foresees significant opportunity to attract third party volumes to the Cold Lake Pipeline. The oil sands corridor that extends from the Cold Lake area to Fort McMurray is relatively underdeveloped compared to other parts of the Western Canadian Sedimentary Basin. We are currently developing several projects which would involve new third party connections to the Cold Lake Pipeline.

Finally, Inter Pipeline will benefit from shipper requests for new facilities or services. Since the Cold Lake Partnership was formed in October 2000, over $50 million has been invested in new oil gathering, condensate delivery and blending facilities. These types of investments generate attractive returns that are accretive to unitholder distributions.

Mr. Fesyk further explains, "The Cold Lake Pipeline has been designed to accommodate growth. We can very cost-effectively expand capacity on the system from 435,000 barrels per day to over 700,000 barrels per day by simply adding new pumping stations rather than laying new pipe."

Inter Pipeline has also positioned itself to potentially acquire CNRL's minority 15% interest in the Cold Lake Partnership. CNRL and Inter Pipeline have entered into an agreement whereby CNRL has an option to sell its 15% interest in the Cold Lake Partnership during the period from April 2003 through September 30, 2003.

Heavy oil production from the Cold Lake area will play an increasingly critical role in meeting growing continental energy demand.

Long-term Contracts Provide Reliable Cash Flow Underpinning Inter Pipeline's investment in the Cold Lake Partnership are long-term shipping contracts with the dominant oil producers in the region – Imperial, CNRL and EnCana – three of Canada's largest and most successful exploration and production companies. Each of these producers has dedicated production from oil reserves in east central Alberta to the Cold Lake Pipeline.

Acquisition Financings

Inter Pipeline has successfully completed two public market financings related to the Cold Lake acquisition. In December 2002, Inter Pipeline raised $138 million through a public offering of 10% Convertible Extendible Unsecured Subordinated Debentures. In February 2003, Inter Pipeline raised an additional $115 million through a new offering of Class A units. In both pubic offerings, Inter Pipeline raised the maximum proceeds available pursuant to the underwriting agreements.

Sherwood Park Control Centre

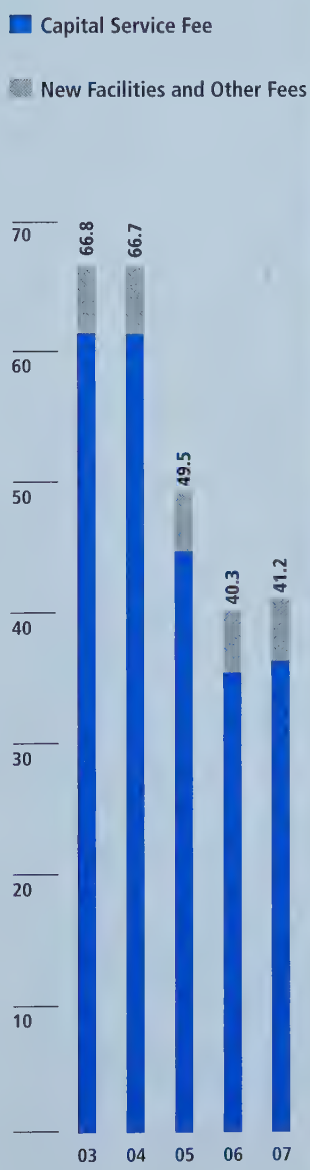
The 70% Cold Lake Partnership acquisition presented a unique opportunity to acquire a fully operational pipeline control centre located in Sherwood Park, Alberta. This first-class facility near Edmonton currently provides remote monitoring and control services for the Cold Lake Pipeline.

Koch Industries, Inc.'s decision in October 2002 to sell its interest in the general partner created the need for Inter Pipeline to establish a new pipeline control centre. The Sherwood Park facility is an excellent fit with Inter Pipeline's current needs.

It is our intention to migrate remote monitoring and control functions for all Canadian pipeline systems operated by Inter Pipeline to the Sherwood Park facility by September 2003. Consolidation of control centre operations will generate significant long-term operating synergies for Inter Pipeline.

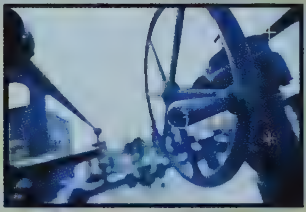
A three million acre 'Reserves Dedication Area' serves to strengthen the long-term competitive position of the Cold Lake Pipeline.

COLD LAKE PARTNERSHIP MINIMUM ANNUAL FEES
($ millions)



The Hardisty Reversal Project essentially converted surplus northbound capacity on the Bow River Pipeline into a profitable new oil movement to satisfy growing demand in southern markets.

The Bow River Pipeline provides oil transportation services to two distinct and competing markets: the Billings, Montana refining market in the south, and the major crude oil market hub at Hardisty, Alberta in the north.



The Bow River Pipeline handles multiple grades of crude oil gathered from over 130 connected sites.

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Meeting Customer Needs The Bow River Pipeline is the Partnership's flagship conventional oil gathering system. Transporting over 65% of Inter Pipeline's volumes in 2002, the Bow River Pipeline continues to evolve in response to the changing needs of our customers. The Hardisty Reversal Project is the latest chapter in this evolution.

The Bow River Pipeline operates in a highly dynamic market environment. It provides oil transportation service to two distinct and competing markets: the Billings, Montana refining market to the south, and the major crude oil market hub at Hardisty, Alberta to the north. The system also handles multiple grades of crude oil gathered from over 130 connected sites.

Balancing Supply and Demand

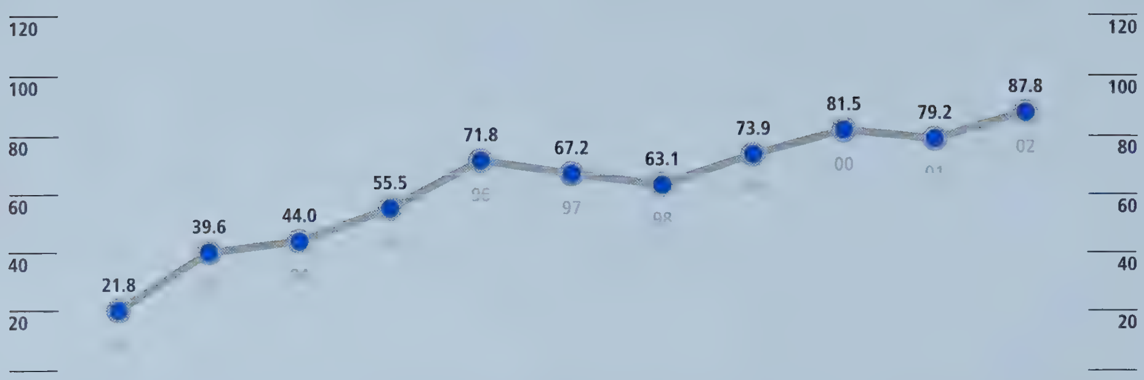
"Managing supply and demand dynamics on the Bow River Pipeline is an ongoing challenge," explains David Fesyk. "We've completed several capacity expansion projects in recent years to attract new production and optimize the flow patterns on Bow River Pipeline's mainlines."

In the past two years the Partnership has invested over $24 million in mainline reconfiguration projects and an additional $7 million to gather incremental crude oil production from the growing Jenner and Suffield production areas in south eastern Alberta.

The Hardisty Reversal Project

The latest chapter in the evolution of the Bow River Pipeline involved the reversal of one of three 233-kilometre segments of mainline between the Hardisty market hub and the Princess pump station. This project, completed in July 2002 at a capital cost of $9.9 million, essentially converted surplus northbound mainline capacity into a profitable new oil movement to satisfy growing demand in southern markets.

BOW RIVER, SOUTHBOUND DELIVERIES VOLUMES (Mbbl/d)



Reversal Converts Surplus Capacity into Revenue So far, deliveries on the reversed segment of the Bow River Pipeline have exceeded initial shipping commitments of 9,200 barrels per day, with shipments averaging 11,200 barrels per day in the second half of 2002, and surpassing 15,000 barrels per day in September.

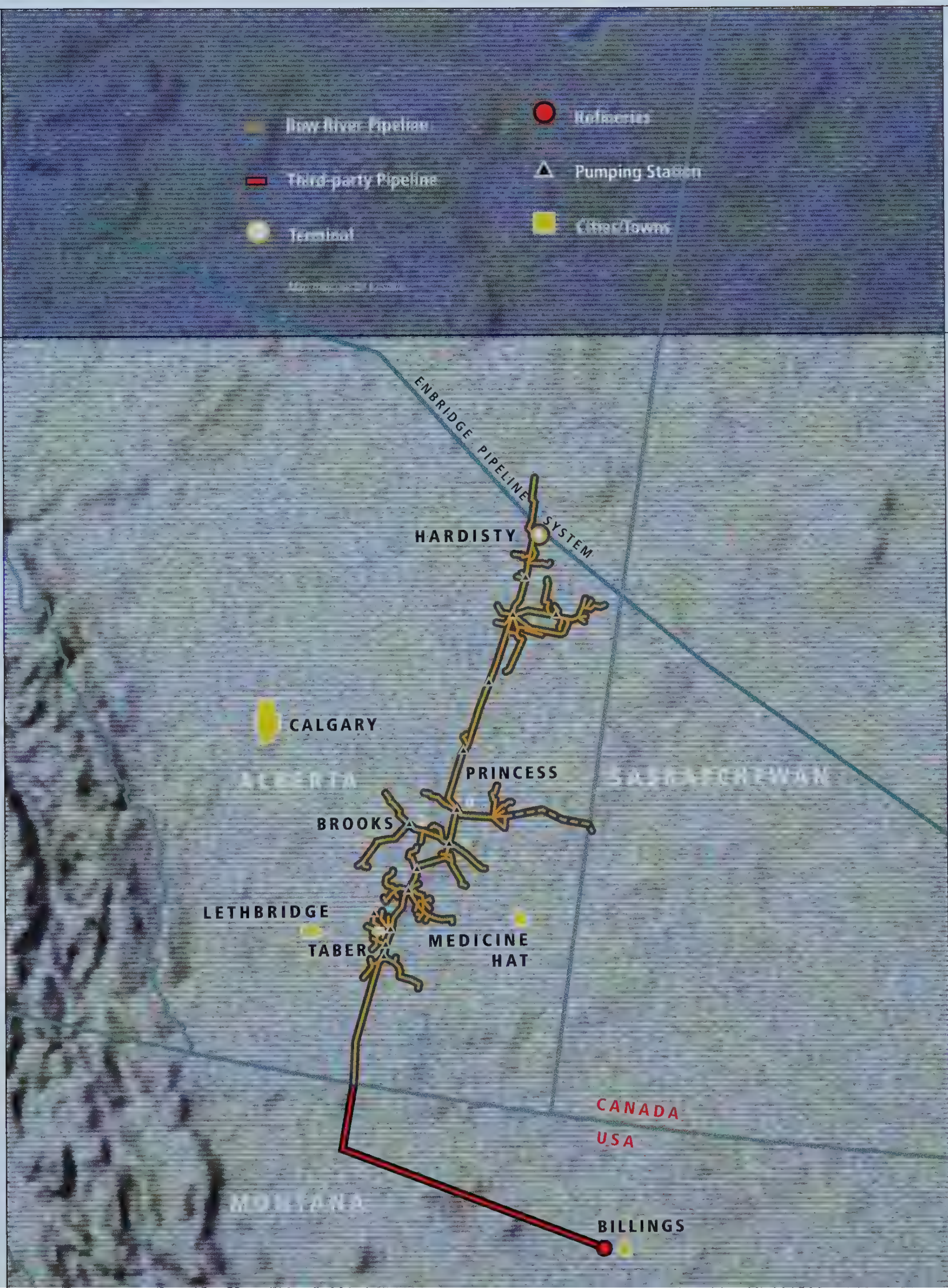
Southbound deliveries on the Bow River Pipeline to the Montana border first commenced in July 1985. Since then, southbound shipments have steadily increased, reaching a delivery rate of over 98,000 barrels per day in July 2002.

"The Hardisty Reversal Project allows the Montana refiners, for the first time, to tap directly into multiple crude oil supply sources available at the Hardisty market hub," commented Mr. Fesyk. "This project reduces our reliance on conventional oil gathering activity to supply the Montana market. Hardisty is no longer simply a northern delivery point on the Bow River Pipeline – it has now become a receipt point for southbound shipments."

Deliveries on the reversed segment of Bow River mainline have exceeded expectations so far. Shipments averaged 11,200 barrels per day in the second half of 2002, and surpassed 15,000 barrels per day in September. The Partnership has secured shipping commitments of 9,200 barrels per day over an initial three-year term to help establish this strategic new oil movement.

The Hardisty Reversal Project is an excellent example of Inter Pipeline's commitment to finding creative ways to meet changing customer needs and enhance long-term unitholder value.

The Hardisty Reversal Project allows the Montana refiners, for the first time, to tap directly into multiple oil supply sources available at the Hardisty market hub.



Inter Pipeline's new board of directors is comprised of very capable individuals with extensive experience in the energy industry and public markets.

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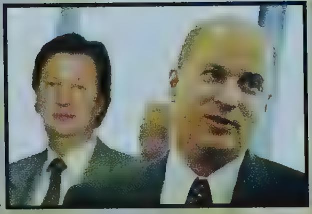
DIRECTORS



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1 H. (Bert) Alfaro
2 J. Howard Geddes **3** John A. Brussa
4 John Vooglaid, Jeffery E. Errico
5 John F. Driscoll **6** J. Lindsay Milne

John F. Driscoll founded and has been President of JF Driscoll Investment Corp., since 1981. He is also Chairman of the General Partner, Pipeline Management Inc. Mr. Driscoll specializes in oil and natural gas investments, as well as related advisory, management and consulting services.

H. (Bert) Alfaro is President of H. Alfaro & Associates Ltd., a petroleum consulting company operating since 1992. Prior to this, he was employed by Home Oil Company Limited for over 38 years, most recently as Director and Vice-President of Production.

John A. Brussa has been a partner of Burnet, Duckworth and Palmer LLP since 1987. Mr. Brussa currently serves as a director of a number of publicly listed resource corporations, a mutual fund trust, an investment dealer and several non-profit and charitable organizations.

Jeffery E. Errico is a professional engineer with over 25 years experience in the oil and natural gas industry. He joined NCE Resources Group in 1995 and currently is President and Chief Operating Officer, NCE Resources Group and a public royalty trust, NCE Petrofund.

J. Howard Geddes provides consulting services to the petroleum industry. Prior to 1989, Mr. Geddes was President and Chief Executive Officer of Westcoast Petroleum Ltd.

J. Lindsay Milne is a retired oil industry executive with over 40 years of experience, predominantly in the North America oil industry. Most recently, Mr. Milne served as President of Canadian Delta Exploration Ltd.

John Vooglaid is a chartered accountant and is Vice-President, Chief Financial Officer and Treasurer of Sentry Select Capital Corp.

The following discussion and analysis highlights significant business results and statistics from Inter Pipeline Fund's financial statements for the year ended December 31, 2002 and the accompanying notes thereto. This information contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Inter Pipeline Fund (the 'Partnership') at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expects" and similar expressions. Such risks and uncertainties include, but are not limited to: risks associated with operations; loss of market; regulatory matters; the volatility in crude oil prices and light-to-heavy crude oil price differentials; hazards inherent in the crude oil transportation business, such as the liability for damages and expenses incurred by unintended discharges, increased obligations imposed by new or revised regulations; environmental risks; industry competition; risks associated with realizing the value of acquisitions and expansions; general economic, market and business conditions; fluctuations in interest rates; the availability of sufficient capital from internal and external sources and such other risks and uncertainties described from time to time in the Partnership's reports and filings made with securities regulators. The Partnership assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

A Focus on Growth

During 2002, the Partnership's ownership changed significantly with Koch Industries, Inc. ('Koch') selling its interest. Through a secondary offering on April 25, 2002, 35.6 million Class B unlimited liability partnership units ('Class B units') were converted into an equivalent number of Class A limited liability partnership units ('Class A units') and then sold to the public, thereby reducing the holdings of Koch Pipelines Canada Ltd., now Pipeline Management Inc. (the 'General Partner'), to 73,200 Class B units, representing a 0.1% interest in the Partnership. While the Partnership did not receive the proceeds from this sale, it almost doubled the size of the Partnership's public float thereby improving the market liquidity of the units.

On October 22, 2002, the shares of the General Partner were purchased by Pipeline Assets Corp. terminating the Partnership's five-year association with Koch. Pipeline Assets Corp. acquired the General Partner with an agenda of growth including a new board of directors comprised of experienced individuals from both the energy industry and financial community. Subsequent to the change in ownership of the General Partner, the Partnership was renamed Inter Pipeline Fund.

On November 19, 2002, the Partnership agreed to purchase a further 70% interest in the Cold Lake Pipeline Limited Partnership (the 'Cold Lake Partnership'), Canada's largest heavy oil gathering system, for cash consideration of $422.5 million, subject to closing adjustments. This acquisition closed on January 2, 2003. With this acquisition, the Partnership almost doubled in size and bolstered the Partnership's conventional gathering business with long-term 'ship-or-pay' contracts, a dedication of substantial long-life oil sands reserves and a number of expansion opportunities. The acquisition also included a pipeline control facility located in Sherwood Park, Alberta, a strategic fit for the Partnership as it terminates its use of the Koch pipeline control centre in Wichita, Kansas. Through this acquisition the Partnership increased its ownership level in the Cold Lake Partnership to 85% and became the operator of the Cold Lake Pipeline System ('Cold Lake Pipeline'). The Partnership has also agreed with the remaining partner in the Cold Lake Partnership to purchase its 15% interest, at the partner's option, during the period April 2003 to September 2003.

To fund its increased ownership in the Cold Lake Partnership, the Partnership increased its credit facilities to $460 million and issued $138 million of 10% Convertible Extendible Unsecured Subordinated Debentures in December 2002. In the first quarter of 2003, the Partnership issued 18.6 million Class A units and used the net proceeds of $109.3 million to reduce bank borrowings.

Stable Cash Flows from Quality Assets

During 2002, the Partnership's cash flow from operations totaled $53.8 million ($0.74 per basic unit) compared to $51.9 million ($0.71 per basic unit) in 2001. This cash flow supported a quarterly distribution by the Partnership of $0.17 per unit throughout 2001 and 2002 aggregating to annual distributions of $49.8 million and $49.9 million, respectively, representing a distribution in excess of 90% of cash flow from operations in each year.

The Partnership continued to invest in the growth of its conventional gathering business with $15.5 million spent in 2002 compared to $21.5 million in 2001. In addition, the Partnership invested $2.3 million in the Cold Lake Partnership compared to $47.0 million in 2001. Over the past two years, the Partnership increased its bank borrowings by $91.5 million primarily to fund these capital commitments.

2002 Business Environment

(average for the year unless otherwise noted)	**2002 ($)**	2001 ($)	2000 ($)
WTI (US$ per barrel)	**26.08**	25.95	30.20
WTI/Bow River differential (US$ per barrel)	**6.02**	9.89	7.07
US/Canadian dollar exchange rate	**0.637**	0.646	0.673

During 2002, the West Texas Intermediate ('WTI') crude oil benchmark price improved slightly compared to 2001. The WTI benchmark price for crude oil averaged US$21.64 per barrel in the first quarter of 2002 and continued to climb throughout the year, ending the year at US$29.39 per barrel. Oil prices strengthened due to a variety of factors including compliance with production quotas by members of the Organization of Petroleum Exporting Countries, uncertainty surrounding the tensions in the Middle East and the disruptions in crude oil supply from Venezuela. In 2002, the average light-to-heavy crude oil price differential was narrower than the previous year due to a general improvement in the supply/demand balance for heavy oil.

The US/Canadian dollar exchange rate has fluctuated over the past two years due to economic and political uncertainties. If the exchange rate changes to favour the Canadian dollar, the Canadian dollar equivalent of the WTI benchmark price declines and if the exchange rate weakens relative to the Canadian dollar, the Canadian dollar equivalent WTI benchmark price increases.

Year-over-year drilling activity was down in 2002. However the steady improvement in crude oil prices throughout 2002 began to result in higher drilling activity in the Partnership's service corridors towards year-end. By the fourth quarter of 2002, the Partnership's volume shipped had increased to 223,800 barrels per day from 205,700 barrels per day in the second quarter of 2002. This growth was also due in part to completion of the Hardisty Reversal Project on the Bow River Pipeline System ('Bow River Pipeline'). This project enabled the Partnership to deliver an additional 11,200 barrels per day from Hardisty to the Alberta-Montana border in the second half of 2002.

The Partnership's future growth depends upon the ability of producers to continue to develop existing reserves and to identify and produce additional reserves in the Partnership's service corridors. Without such developments, the volumes of crude oil transported through the pipelines will decline over time as reserves are depleted. Crude oil production is also partially dependent on crude oil prices. Sustained lower prices may result in lower production levels due to fewer wells being drilled, reduced well maintenance and the possibility of deliberate well shut-ins. The Partnership has few long-term ship-or-pay contracts on its conventional gathering assets. Accordingly, if production declines in these service areas due to depletion of reserves, low crude oil prices or other factors, producers are not required to ship specific volumes of crude oil, and transportation revenues on the Partnership's pipeline systems may decline.

(averages for the year unless otherwise noted)	2002 ($)	2001 ($)	2000 ($)
AECO natural gas 30-day spot (CDN$ per MMBTU)	4.04	6.23	5.07
Power Pool of Alberta (CDN$ per MWh)	44.06	71.25	133.84

Electrical power accounted for approximately 20% of the Partnership's total annual operating costs over the past two years. Deregulation of the Alberta electrical power market at the beginning of 2001 has contributed to increased volatility in Alberta's electrical power prices. This price volatility is related to the supply and demand of electrical power and to variations in the price for Alberta deliveries of natural gas. Natural gas-fired electrical power generation is usually the marginal supplier to the Alberta market and as a result, natural gas prices in Alberta tend to influence the marginal price of the Power Pool of Alberta. High natural gas prices in late 2000 and early 2001, along with the electrical power demands of the US Northwest, resulted in an average Power Pool of Alberta price of $131.22 per MWh in January 2001. Again in late 2002/early 2003, high natural gas prices and temporary reductions in available supply provided the basis for an average Power Pool of Alberta price in the first quarter of 2003 of $83.94 per MWh.

Financial Results

During 2002, the Partnership's cash flow from operations totaled $53.8 million, an increase of $1.9 million compared to 2001. This improvement is primarily the result of a 4% increase in revenues ($4.0 million) and an 8% reduction in operating costs ($2.6 million) offset by a $4.5 million increase in interest costs. These factors, together with the $7.9 million increase in equity income from the Cold Lake Partnership and a $3.4 million reduction in other non-cash charges, accounted for most of the $13.2 million increase in the Partnership's net income to $21.3 million for 2002.

Stable Revenues with Incremental Business Opportunities

The Partnership generally earns its revenue by charging a toll for volume transported. Over the past two years the Partnership's cash flow has been relatively stable, as toll increases have been sufficient to offset costs related to proactive asset integrity programs and declining throughput volumes.

AVERAGE DAILY THROUGHPUT VOLUMES BY PIPELINE SYSTEM

(thousands of barrels per day)	2002	2001
Bow River Pipeline System:		
Bow River crude oil	124.8	131.4
Light sour crude oil	16.1	23.7
	140.9	155.1
Bow River Reversal	5.6	–
	146.5	155.1
Central Alberta Pipeline System:		
Light sour crude oil	29.0	36.4
Light sweet crude oil	–	–
	29.0	36.4
Mid-Saskatchewan Pipeline System:		
Heavy blend crude oil	24.1	26.4
Light sweet crude oil	10.1	10.6
	34.3	37.0
Valley Pipeline System:		
Condensate	5.4	6.5
Total average daily throughput	215.1	235.0

Totals may not add due to rounding.

Throughput volumes averaged 215,100 barrels per day in 2002 compared to 235,000 barrels per day the previous year. During the first half of 2002, volumes averaged 209,600 barrels per day as drilling activity within the Partnership's service corridors during the 2001/02 winter season was insufficient to generate the incremental production required to offset the natural production declines.

The Partnership's throughput volumes in the second half of 2002 averaged 220,500 barrels per day, an increase of 5% compared to the first half of 2002. Higher volume throughputs in the second half of 2002 reflected stabilization of the volumes in the Partnership's conventional gathering business and the commencement of the Hardisty Reversal Project in July. This service reduces the Partnership's reliance on production from within the gathering area and represents an important step in the profitable evolution of the Bow River Pipeline to a mainline transmission system servicing the growing Montana refinery markets from Hardisty, one of Alberta's two pipeline hubs.

In 2002, the Partnership's revenues increased by $4.0 million to $96.1 million. The Hardisty Reversal Project accounted for approximately $2.9 million of the revenue increase. The remaining $1.1 million of revenue improvement is attributed to a 14% increase in average revenue per barrel that generated incremental revenue of $12.4 million, offset by a $11.3 million revenue reduction as a result of a volume decline of 25,500 barrels per day in the Partnership's conventional gathering business. Toll increases were introduced to reflect pipeline usage as well as to offset costs of the Partnership's proactive asset integrity programs.

Operating Costs

The Partnership's 2002 operating expenses of $31.4 million were $1.4 million lower than the previous year, excluding the $1.2 million of spending in 2001 to repair and remediate a leak on the Jenner lateral. While many of the Partnership's operating costs are relatively stable, its electrical power costs and insurance premiums have been more variable over the past two years.

Electrical power costs in 2002 of $5.2 million represented approximately 20% of total operating costs and were $1.1 million lower than the previous year. In 2001, the Partnership's electrical power cost included a $2.1 million charge to settle hedging contracts whereas there was no hedging activity in 2002. After excluding the costs of hedging, the Partnership's 2002 electrical power costs were $1.0 million higher over the prior year. This was contrary to the trends for the Power Pool of Alberta prices that averaged $44.06 per MWh in 2002 compared to $71.25 per MWh in 2001. The Alberta government provided power rebates in 2001 that allowed certain Alberta consumers to receive a rebate equivalent to approximately $36 per MWh. The Partnership's rebates totaled approximately $2.0 million in 2001; the rebate program did not continue in 2002.

Subsequent to the events of September 11, 2001, the insurance markets have been very unsettled and the Partnership's annual renewal of its insurance in November 2001 took place in a difficult insurance market. As a result, to maintain appropriate coverage levels, 2002 insurance premiums increased by 141% to $1.4 million.

The Partnership's cost of maintaining its facilities in 2002 was relatively unchanged compared to 2001, but included two offsetting variances. The Partnership completed its initial compliance with new Alberta G-55 regulatory requirements in 2001, and as a result, the 2002 tank maintenance expenditures were $2.4 million lower than in the prior year. Offsetting this reduction was a $2.6 million increase in the Partnership's share of pipeline integrity costs. This increase was largely due to the higher frequency of internal pipeline and river crossing inspections and the completion of the Koch-funded pipeline inspection and repair program. Since the formation of the Partnership in 1997 through to October 2002, the initial promoter of the Partnership, a Koch affiliate, paid $10 million of costs pursuant to a predetermined pipeline inspection and repair program. This program was completed in October 2002. In future years, all pipeline and inspection and repair costs will be paid for by the Partnership and it is anticipated that these costs will be at or above 2002 levels.

Interest Expense

In 2002, the Partnership incurred interest charges of $5.5 million compared to $1.0 million the previous year. The higher interest charges in 2002 were mainly due to an increase in the average amount of debt outstanding and interest rate hedging costs incurred by the Partnership. Over the past 21 months the Partnership's debt outstanding has increased from $21 million in the first quarter of 2001 to $107 million by the end of 2002. The majority of these funds were used to expand the Bow River Pipeline and to fund the Partnership's cash contributions to the Cold Lake Partnership. The average interest rate incurred by the Partnership in 2002 was 3.4% per annum compared to 4.8% per annum the previous year contributing to its interest charge of $2.5 million in 2002 compared to $1.4 million in the prior year.

In addition the Partnership swapped its floating interest rate exposure for an average fixed rate of 6.10% per annum in respect of $65 million of principal borrowings resulting in an interest rate hedge settlement cost of $2.4 million in 2002 compared to $0.1 million in 2001. For 2003, the interest rate on $64 million of the Partnership's borrowings is hedged at an average rate of 6.09% per annum with the interest rate on borrowings in excess of $64 million bearing the applicable floating rate.

At current borrowing levels, a 1% per annum change in interest rates results in a $2.4 million per annum fluctuation in the Partnership's operating cash flow.

The Partnership has entered into the following interest rate swap agreements with a Canadian chartered bank.

Maturity Date	Fixed Rate Per Annum (%)	Notional Balance (000$)
September 30, 2006	5.41	15,000
December 31, 2011	6.31	15,000
December 31, 2011	6.30	34,000*
		64,000

*Face value of the swap reduces by $1 million per year.

The fair market value of the outstanding swap contracts as at December 31, 2002 results in an unrecognized loss of $3.9 million (2001 – $3.3 million).

Depreciation Expense

Capital assets are depreciated on a declining balance basis over the estimated service life. The estimated service life is determined by the estimated life of the crude oil reserves that are expected to be gathered by each pipeline system. The Partnership's pipelines, facilities and equipment have service lives which range from 15 to 25 years. Depreciation expense for 2002 of $39.4 million compares to $40.3 million in 2001.

Management Fee

The management fee of $1.2 million in 2002 was approximately the same as the previous year. The General Partner is paid 2% of 'Operating Cash' as defined in the Partnership Agreement. In 2003 the Partnership's operating cash flow is expected to increase significantly as a result of the acquisition of the 70% interest in the Cold Lake Partnership, and as a result, management fees are expected to increase by approximately $1 million. In addition, the $4.2 million 'acquisition fee' payable to the General Partner in relation to the Cold Lake Partnership acquisition will be expensed in the first quarter of 2003, with the payment funded by debt.

Capital Investment

During 2002, the Partnership's capital spending totaled $16.3 million including $0.8 million of maintenance capital spending. The major projects were the Hardisty Reversal Project and the continued investment in facilities to connect new oil field treating facilities to the Partnership's pipeline gathering systems.

The Hardisty Reversal Project reversed the flow on one of the three Bow River Pipeline mainline segments between Hardisty and Princess to enable a southern flow of crude oil from Hardisty to the Alberta-Montana border. In addition, receipt facilities were constructed in Hardisty to accept product from third party terminal facilities. The pumping changes associated with the Hardisty Reversal Project accounted for $9.6 million of the 2002 capital spending and were supported by a three-year ship-or-pay commitment. The construction of receipt facilities for third parties accounted for a further $3.1 million in 2002. The Partnership also completed a significant Bow River Pipeline gathering project on the Grand Forks lateral at a cost of $1.8 million.

Cold Lake Partnership

The Cold Lake Pipeline is Canada's largest heavy oil gathering system, consisting of over 900 kilometres of pipelines and approximately 400,000 barrels of storage capacity. The Cold Lake Pipeline has a current capability to transport 235,000 barrels per day to Edmonton and 200,000 barrels per day to Hardisty.

The Cold Lake Partnership was organized in October 2000 to significantly expand the Cold Lake Pipeline and commenced operations in December 2001. In 2001, the Cold Lake Partnership made capital expenditures of $161.4 million compared to approximately $0.7 million in 2002.

In its first full year of operation, the Cold Lake Partnership 2002 results were as follows:

	2002 ($ million)
Revenues	77.9*
Operating costs	11.3
Depreciation	11.3
Income from operations	55.3

*Includes $11.6 million of revenues for committed volumes not shipped.

Pursuant to an agreement finalized in 2002, the Partnership increased its ownership interest in the Cold Lake Partnership from 15% to 85% on January 2, 2003 for cash consideration of $422.5 million, subject to closing adjustments. This acquisition has significantly increased the Partnership's exposure to Alberta's long-life oil sands reserves. The Partnership has also provided the holder of the remaining 15% interest with an option to sell its interest to the Partnership during 2003. The economics of this purchase commitment are similar to the Partnership's acquisition of the 70% interest in the Cold Lake Partnership, which was based on the net present value of the Cold Lake Partnership's estimated cash flow. Should the Partnership elect not to conclude such purchase, if offered, the Partnership would be required to pay $5 million. If this partner elects to sell its Cold Lake Partnership interest to another third party, under certain circumstances, the Partnership has a right-of-first-refusal to acquire this partner's interest.

The minimum annual service fees from the Cold Lake Pipeline are derived from the 'ship-or-pay' provisions of the Cold Lake Transportation Services Agreement ('TSA'), which arrangements continue until 2011. The minimum annual fee under these 'ship-or-pay' provisions declines from $61.4 million in 2003 to $36.3 million per annum for the period 2007 through to 2011. The impact of reducing minimum annual fees is expected to be mitigated by growth in founders' volumes above the minimum 'ship-or-pay' commitment, the revenues earned on the construction of the additional facilities and the ability of the Partnership to attract new third-party volumes to the Cold Lake Pipeline. Volumes shipped by the parties to the TSA from within the Reserves Dedication Area are generally committed to the Cold Lake Pipeline. However the existing Cold Lake shippers may utilize alternative transportation sources after 2011 (if certain minimum volumes are maintained) subject to the Cold Lake Partnership's right to match any alternative proposal. Any revenue shortfall between the volumes shipped and the 'ship-or-pay' commitment is collected following the end of the applicable calendar year.

Had the Partnership purchased the additional 70% interest on January 1, 2002 (rather than January 2, 2003), the Partnership's share of the Cold Lake Partnership's 2002 cash distributions

for the year would have been $62.5 million, a $56.4 million increase over the $6.2 million the Partnership was entitled to in relation to its 15% interest. During 2002, the Partnership received cash distributions totaling $0.3 million in respect of its share of the Cold Lake Partnership's cash flow and anticipates receiving the remaining share of its 2002 cash distributions in the second quarter of 2003. The mechanics of this allocation are described in Note 4 to the Partnership's 2002 financial statements.

As described in Note 4(d) to the financial statements, the Cold Lake Partnership is obligated to provide transportation services as outlined in the TSA. The Partnership, being the operator of the Cold Lake Pipeline, has assumed the obligations to operate the Cold Lake Pipeline in accordance with the TSA and to expand and/or extend the Cold Lake Pipeline within the Reserves Dedication Area at the request of the parties to the TSA. The TSA provides that such requests for service entitle the Cold Lake Partnership to recover substantially all related operating costs and earn a specified rate of return on capital expenditures. The Partnership anticipates that a request requiring a significant expansion of the Cold Lake facilities would involve an investment in engineering and design services prior to large amounts of capital being incurred to construct facilities. As such, a request for a significant increase in Cold Lake's service capability in 2003 would be expected to significantly impact capital spending in years beyond 2003.

Liquidity and Capital Resources

At December 31, 2001, the Partnership had cash balances of $18.0 million and advances under credit facilities of $86.2 million with unutilized credit lines of $38.8 million. During 2002, the Partnership distributed $49.9 million of the $53.8 million of cash flow from operations. This resulted in an additional $20.8 million drawdown of credit facilities to fund $15.5 million of capital expenditures, $4.9 million of Cold Lake Partnership acquisition costs, $2.3 million of capital contributions to the Cold Lake Partnership and changes in working capital. Excluding the deferred costs of the Cold Lake Partnership acquisition and the net proceeds from the issue of the 10% Convertible Extendible Unsecured Subordinated Debentures, the Partnership would have had cash balances of $24.6 million and advances under credit facilities of $107.0 million with unutilized credit lines of $18.0 million as at December 31, 2002.

In conjunction with its agreement to purchase an additional 70% interest in the Cold Lake Partnership, the Partnership completed the following financing initiatives:

- issued $138 million of 10% Convertible Extendible Unsecured Subordinated Debentures for net proceeds of $132.0 million;
- increased its credit facilities from $125 million to $460 million; and
- issued 18.6 million Class A units for net cash proceeds of $109.3 million.

On January 2, 2003, the Partnership used net proceeds from the convertible debentures ($132.0 million) plus advances through the Term Facility ($335 million) and the Revolving Facility ($60.4 million) to acquire a 70% interest in the Cold Lake Partnership ($422.5 million less working capital adjustments) and fully repay prior advances under certain revolving credit facilities ($107 million).

By the beginning of March, 2003, the Partnership received $109.3 million in net proceeds from the 18.6 million Class A unit offering, of which $79 million was applied to the $335 million Term Loan Facility and the balance was applied to the $125 million Revolving Facility. As a result, advances under the Revolving Facility were reduced to $43.0 million and the advances under the Term Facility were reduced to $256.0 million. The Partnership may redraw up to $79 million of the Term Facility to acquire the remaining 15% interest in the Cold Lake Partnership. However, if the purchase does not occur by September 30, 2003, then the $79 million will be deemed to have permanently reduced the $335 million Term Loan Facility. Debt outstanding as at February 28, 2003 was $299 million of the $460 million loan facility.

The maturity date of the $125 million Revolving Facility, currently January 2, 2004, may be extended for an additional 364 days annually, with the lenders' agreement. If the revolving period is not extended, the facility converts to a non-revolving facility payable within one year. The $335 million Term Facility reduces by $100 million on January 2, 2004 with the residual $235 million maturing one year later. One of the Partnership's 2003 objectives is to extend the maturity date of its debt commitments and structure its capital for long-term growth.

The Credit Agreement supporting the $460 million of credit facilities includes covenants that limit the Partnership's ability to sell assets. There are also covenants regarding debt to operating cash flow ratios, interest coverage ratios and the level of distributions. The financial covenants limit the Partnership's post-September 2003 Senior Debt to 3.5 times the operating cash flow and the interest coverage ratio to an amount greater than 3.25 times, as defined in the Credit Agreement. After adjusting to reflect the acquisition of the 70% interest in the Cold Lake Partnership as at January 1, 2002, an effective annual interest rate of 6.50% per annum, and the net proceeds from the sale of the 18.6 million Class A units, the estimated financial ratios as at the end of December, 2002 would have been:

Total debt: Operating cash flow	2.5 times
Senior debt: Operating cash flow	2.5 times
Interest coverage ratio	6.3 times

Outlook

The Partnership's goal is to provide stable distributions to unitholders. Operating cash flow in excess of distributions paid will be used to provide a reserve to moderate the impact of fluctuations in operating cash flow, disruptions to operations and to fund capital expenditures.

Effective January 2, 2003, the Partnership became the operator of the Cold Lake Pipeline and will focus its efforts on continuing the efficient integration of the Cold Lake operations into its existing business. In addition, the sale of the General Partner by Koch in 2002 resulted in the need for the Partnership to transition from services previously provided by Koch and its affiliates. The most significant transition activity will be the relocation of services from Koch's Wichita-based pipeline control centre to the Partnership's recently acquired Sherwood Park Control Centre, located just outside Edmonton.

During 2003, the Partnership's conventional gathering business is expected to benefit from a favourable oil price environment and an expected increase in levels of drilling activity within the Partnership's service corridors. In addition, the Partnership's 2003 conventional gathering business revenue will reflect a tolling increase introduced January 1, 2003 as well as a full year's contribution from the Hardisty Reversal Project.

The 2003 operating expenses for the conventional gathering business (excluding Cold Lake Partnership expenses) are expected to be approximately 10% higher than the previous year as a result of several factors, including the Partnership's continuing focus on its asset integrity programs, higher insurance premiums and General Partner and Cold Lake transition costs. The Partnership currently has not hedged its electrical power price exposure and increases in electrical power prices may also contribute to increased operating costs to the extent toll increases are insufficient to offset the higher cost. On an annual basis, a $10 per MWh change in electrical power price results in an estimated $0.6 million change in operating expenses. Due to the high natural gas prices in early 2003, Power Pool of Alberta prices approximated $83.94 per MWh in the first quarter of 2003 compared to a $44.06 per MWh average in 2002.

The Partnership's interest in the Cold Lake Partnership increased from 15% in 2002 to 85% effective January 2, 2003, and may increase to 100% during the second or third quarter of 2003. The Cold Lake Partnership is expected to generate cash flow in 2003 of approximately $66.8 million supported by ship-or-pay commitments as well as other fixed service fee arrangements. Of this estimated amount, the Partnership would receive approximately $60.3 million in relation to its 85% interest. The Cold Lake operating costs are predominantly a flow-through charge to the shippers.

The Partnership's capital spending estimates for 2003 include the completion of third party receipt facilities at Hardisty, the construction of facilities to provide a synthetic diluent service to the Cold Lake region and continued investment on the conventional gathering pipeline systems. Total capital spending in 2003, including Cold Lake and General Partner transition costs is anticipated to be $35 million to $40 million.

In March 2003, the Partnership announced the establishment of a distribution reinvestment plan. This program provides unitholders with a convenient and cost-effective way to increase their ownership in the Partnership. The Partnership intends to use the resulting undistributed cash to fund a portion of its annual capital expenditure program.

Business Risks

The Partnership's goal is to maintain stable distributions to unitholders; however, there are a number of inherent risks that may cause fluctuations in the Partnership's distributions.

The Partnership generally generates substantially all of its revenue by charging a toll for volume transported. The Partnership's conventional gathering business is primarily conducted under contracts of 30 days duration or less. As a result throughput volumes on the Partnership's conventional gathering assets are subject to competition for volumes transported via trucking and from other pipelines operating near its service corridors. Although the Partnership is unaware of any plans to do so, competing pipelines could be constructed in the areas serviced by the Partnership's conventional gathering pipeline systems.

Growth in the Cold Lake Partnership's business will depend in part on its ability to secure third-party volumes to the Cold Lake Pipeline. There is currently another underutilized competing pipeline system as well as a proposal to build a further pipeline through the Cold Lake region that may compete for volumes that are not committed to the Cold Lake Pipeline under the TSA.

Factors that may influence resource development in the Cold Lake region include natural gas and condensate prices. Crude oil produced in the Cold Lake region requires natural gas to generate steam that assists in the extraction of the bitumen. The viscosity of bitumen requires condensate or a light crude oil product to be blended with the bitumen to allow it to be transported through the pipeline. High natural gas prices may contribute to a shortage of condensate supply and increase the costs of producing bitumen, which may reduce production and/or delay the development of new production in the Cold Lake region.

Currently, transportation service on the Partnership's pipelines has been made available on an open access non-discriminatory basis and tolls on the pipelines have not been set or restricted by any regulatory agency. Legislation in Alberta exists to ensure shippers and producers have fair and reasonable opportunities to produce, transport, process and market their reserves. Under the *Oil and Gas Conservation Act* (Alberta), the Alberta Energy and Utilities Board (AEUB) may on application, and following a hearing (and with the formal approval of the Lieutenant Governor-in-Council), declare the proprietor of a pipeline to be a common carrier of oil such that the proprietor must not discriminate among shippers and producers who seek access to the pipeline. Following the issuance of a common carrier declaration, a shipper or producer may apply to the AEUB for a review and setting of tolls, which it determines to be just and reasonable. Applications to the AEUB for the setting of tolls could result in a toll reduction and decreased revenues to the Partnership. In addition, although it has never exercised this jurisdiction, the AEUB has determined that the *Public Utilities Board Act* (Alberta) provides it with the jurisdiction to override transportation contracts.

The Partnership's operations are subject to the customary hazards of the crude oil transportation business. Operations could be interrupted by failure of pipelines, pumps and equipment, or natural disasters or other events beyond the Partnership's control. The principal risks associated with crude oil pipelines are the property damage and cleanup expenses incurred by unintended discharges and increased obligations imposed by new or revised regulations. The Partnership undertakes a number of preventative initiatives to promote safe and efficient operation and to mitigate the risk of loss from pipeline leaks and crude oil spills. For example, the Partnership has a proactive pipeline inspection program and remotely monitors its pipeline system mainlines through its Supervisory Control and Data Acquisition (SCADA) and leak monitoring systems.

The operations of the Partnership are subject to Canadian and provincial laws and regulations relating to operational safety. Operation of certain of the Pipeline assets has spanned several decades. While the remediation of releases or contamination during such time period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and accordingly historical contamination may exist for which the Partnership is liable. The Partnership has completed internal environmental reviews which have attempted to identify locations of historic contamination and several locations have been remediated. The remaining identified but unremediated sites will be addressed in a prioritized manner utilizing industry practices with some locations having multi-year restoration plans.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property

or persons resulting from the Partnership's operations and previously undiscovered locations of historical contamination could result in substantial costs and liabilities to the Partnership. If the Partnership was not able to recover such resulting costs through insurance or increased tolls, the Partnership's operating cash flows would be affected.

The Partnership also maintains insurance with respect to some, but not all, casualty occurrences and disruptions, in amounts it considers prudent. In relation to the conventional gathering assets, the Partnership maintains general liability, pollution and automobile liability coverage up to an amount of $100 million with deductibles ranging up to $1.5 million. In addition it has property and machinery insurance up to an amount of $25 million and business interruption insurance on the Bow River Pipeline System up to an amount of $25 million subject to a 30-day waiting period. Insurance coverage may not be sufficient to cover all casualty occurrences and disruptions to operating cash flow.

The Cold Lake Partnership maintains general liability, pollution and automobile liability coverage up to an amount of $30 million with deductibles ranging up to $2.0 million. In addition, the Cold Lake Partnership has property and machinery coverage up to an amount of $10 million. Pursuant to the TSA, in most circumstances the Cold Lake shippers bear the cost of the insurance premiums, deductibles and any costs in excess of the insurance claim paid.

Certain provisions of the Partnership's pollution insurance may limit its availability for certain occurrences unless they are discovered within fixed time periods (currently 10 days from the time of the incident). If the Partnership is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

The energy industry has the potential to be targeted by terrorists or other parties seeking to impair certain segments of the economy and the daily lives of the affected population. The Partnership has taken steps it deems prudent to protect the Partnership's assets including periodic patrolling of key facilities, and security fencing and intrusion alarms at several facilities. During periods of heightened government terrorist alert status, the Partnership has, and may in the future, take actions such as increasing the patrolling frequency of key Partnership assets. The Partnership is also participating in certain industry and government-led task forces that are, among other things, designed to coordinate communication and identify and mitigate potential terrorism threats to the energy industry. While these activities and safety measures enhance the security of the Partnership's assets, they cannot guarantee the prevention of a determined attack. In the event of an attack on its assets, the Partnership has the advantage of numerous receipt and delivery points on its

pipeline systems and this could provide operational flexibility to maintain some level of throughput. Neither of the insurance policies held by the Partnership or the Cold Lake Partnership cover acts of terrorism.

As a result of ratification of the Kyoto Protocol and the adoption of legislation or other regulatory initiatives designed to implement its objectives by the federal or provincial governments, reductions in greenhouse gases from producers in the geographic areas served by the Partnership's pipelines may be required which could result in, among other things, increased operating and capital expenditures which may make certain production of crude oil uneconomic resulting in reductions in such production. Several producers have recently announced their intention to delay or reduce the scope of their planned Alberta oil sands development or expansion projects citing the potential increased costs that may result from implementation of the Kyoto Protocol.

New Accounting Pronouncements

In December 2001, the Canadian Institute of Chartered Accountants ('CICA') issued Accounting Guideline 13, *Hedging Relationships* ('AcG-13'). AcG-13 is effective for fiscal years beginning on or after July 1, 2003 and deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Partnership anticipates that adoption of AcG-13 will not have a material impact on its financial statements.

In September 2002, the CICA approved Section 3063, *Impairment of Long-Lived Assets.* Section 3063 is effective for fiscal years beginning on or after January 1, 2004 and establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets, and applies to long-lived assets held for use. An impairment loss is recognized when the carrying value of a long-lived asset is not recoverable and exceeds its fair value. The Partnership anticipates that adoption of Section 3063 will not have a material impact on its financial statements.

In December 2002, the CICA approved Section 3110, *Asset Retirement Obligations.* Section 3110 is effective for fiscal years beginning on or after January 1, 2004 and requires liability recognition for retirement obligations associated with our pipeline facilities and equipment. These obligations are initially measured at fair value, which is the discounted future value of the liability. This fair value is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until we expect to settle the retirement obligation. The total impact on the Partnership's financial statements has not yet been determined.

Management's Responsibility for Financial Statements

The accompanying financial statements of Inter Pipeline Fund (formerly Koch Pipelines Canada, L.P.) (the 'Partnership') and all information in this Annual Report are the responsibility of the management of Pipeline Management Inc. (formerly Koch Pipelines Canada Ltd.) (the 'General Partner'), and have been approved by the Board of Directors of Pipeline Management Inc. on behalf of the Partnership. The financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect the General Partner's best judgements. Financial information contained throughout this Annual Report is consistent with these financial statements.

The General Partner has developed and maintains an extensive system of internal controls that provides reasonable assurance that all Partnership transactions are accurately recorded, that the Partnership's financial statements realistically report the operating and financial results and that the Partnership's assets are safeguarded.

In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit the Partnership's financial statements and provide an independent audit opinion.

Pipeline Management Inc. as General Partner of Inter Pipeline Fund.

David W. Fesyk
President and Chief Executive Officer

Scott D. Gerla, C.A.
Vice President, Finance

Auditors' Report

To the Partners of Inter Pipeline Fund

We have audited the balance sheets of Inter Pipeline Fund (formerly Koch Pipelines Canada, L.P.) (the 'Partnership') as at December 31, 2002 and 2001 and the statements of partners' equity, net income, and cash flows for the years then ended. These financial statements are the responsibility of the management of Pipeline Management Inc. (formerly Koch Pipelines Canada Ltd.) on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Calgary, Canada
February 28, 2003

Balance Sheets

As at December 31 (thousands of dollars)	2002	2001
ASSETS		
Current		
Cash and short-term investments	$ 151,661	$ 18,038
Accounts receivable [note 10]	13,872	11,367
Prepaid expenses	1,834	792
	167,367	30,197
Deferred capital and pipeline inspection expenditures [note 3]	—	2,398
Investment in Cold Lake Pipeline Limited Partnership [note 4]	65,374	50,289
Capital assets [note 5]	512,229	534,324
	$ 744,970	$ 617,208
LIABILITIES AND PARTNERS' EQUITY		
Current		
Distributable Cash payable [notes 6 and 10]	$ 12,559	$ 12,444
Accounts payable and accrued liabilities [note 10]	14,422	10,479
	26,981	22,923
Bank loans [note 7]	107,000	86,180
	133,981	109,103
10% convertible extendable unsecured subordinated debentures [note 8]	133,947	—
Partners' equity [note 9]	477,042	508,105
	610,989	508,105
	$ 744,970	$ 617,208

Commitments [notes 4, 7 and 11]

See accompanying notes

On behalf of the Board of Pipeline Management Inc.,
as General Partner of the Partnership:

Director

Director

Statements of Partners' Equity

(thousands of dollars)	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Total
Balance, December 31, 2000	**$ 281,624**	**$ 268,106**	**$ 549,730**
Net income for the year	4,176	3,975	8,151
Distributions	(25,500)	(24,276)	(49,776)
Balance, December 31, 2001	**260,300**	**247,805**	**508,105**
Net income from January 1 to April 25	3,367	3,205	6,572
Distributions from January 1 to April 25	(6,375)	(6,069)	(12,444)
Conversion on secondary offering, April 25	244,439	(244,439)	—
Balance, April 25, 2002	501,731	502	502,233
Net income from April 26 to December 31	14,734	15	14,749
Distributions from April 26 to December 31	(37,409)	(38)	(37,447)
Convertible debentures issue costs [note 8]	(6,016)	(6)	(6,022)
Interest on convertible debentures [note 8]	(527)	(1)	(528)
Conversion of debentures [notes 8 and 9]	4,053	4	4,057
Balance, December 31, 2002	**$ 476,566**	**$ 476**	**$ 477,042**

See accompanying notes

Statements of Net Income

Year ended December 31 (thousands of dollars, except per unit amounts)	2002	2001
REVENUE	**$ 96,073**	$ 92,053
EXPENSES		
Operating	**31,398**	33,999
General and administrative	**4,236**	4,045
Pipeline inspection expenditures [note 3]	**1,271**	3,757
Depreciation and amortization	**39,415**	40,345
	76,320	82,146
INCOME BEFORE THE FOLLOWING	**19,753**	9,907
Equity income from Cold Lake Pipeline Limited Partnership [note 4]	**8,196**	323
Gain (loss) on sale of capital assets	**5**	(3)
Management fees [note 1]	**(1,182)**	(1,115)
Interest expense [note 7]	**(5,451)**	(961)
NET INCOME	**$ 21,321**	$ 8,151
Net income per Partnership unit [note 9]		
Basic and diluted	**$ 0.28**	$ 0.11

See accompanying notes

Statements of Cash Flows

Year ended December 31 (thousands of dollars)	2002	2001
OPERATING ACTIVITIES		
Net income	$ 21,321	$ 8,151
Pipeline inspection expenditures	1,271	3,757
Depreciation and amortization	39,415	40,345
Equity income from Cold Lake Pipeline Limited Partnership	(8,196)	(323)
(Gain) loss on sale of capital assets	(5)	3
Cash flow from operations	53,806	51,933
Net change in non-cash working capital	(1,568)	954
Cash provided by operating activities	52,238	52,887
INVESTING ACTIVITIES		
Investment in Cold Lake Pipeline Limited Partnership	(7,185)	(47,628)
Distributions from Cold Lake Pipeline Limited Partnership	296	—
Additions to capital assets	(16,340)	(22,649)
Proceeds on sale of capital assets	152	47
Net change in non-cash working capital	1,122	(650)
Cash used in investing activities	(21,955)	(70,880)
FINANCING ACTIVITIES		
Distributable Cash paid [note 6]	(49,776)	(49,776)
Increase in bank loans	20,820	86,180
Convertible debentures issue costs	(6,022)	—
Proceeds on issuance of convertible debentures [note 8]	138,000	—
Interest on convertible debentures	(528)	—
Issuance of Class B units	4	—
Net change in non-cash working capital	842	—
Cash provided by financing activities	103,340	36,404
Increase in cash and short-term investments	133,623	18,411
Cash (bank indebtedness), beginning of year	18,038	(373)
Cash and short-term investments, end of year	$ 151,661	$ 18,038

See accompanying notes

Notes to Financial Statements

December 31, 2002 and 2001 (tabular amounts in thousands of dollars, except unit and per unit amounts)

1. Structure of the Partnership

Inter Pipeline Fund (the 'Partnership') was formed as a limited partnership under the laws of Alberta pursuant to an agreement dated October 9, 1997 (the 'Partnership Agreement'). On October 22, 2002, Koch Industries, Inc. sold its interest in Koch Pipelines Canada Ltd. (the 'General Partner') to Pipeline Assets Corp. As a result of the sale, the Partnership and the General Partner were renamed Inter Pipeline Fund and Pipeline Management Inc., respectively. Pursuant to the Partnership Agreement, the General Partner is required to maintain a 0.1% interest in the Partnership. The Partnership is dependent on the General Partner for the administration and management of all matters relating to the operation of the Partnership. The Partnership's business activities are related to the transportation, storage, marketing, and processing of hydrocarbons.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of the Partnership. The General Partner also receives an annual base fee equal to 2% of the Partnership's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of the Partnership's annual Distributable Cash in excess of $1.01 per unit to $1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by the Partnership (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by the Partnership.

The Partnership currently distributes, on a quarterly basis, Distributable Cash to holders of the Class A limited liability partnership units ('Class A units') and Class B unlimited liability partnership units ('Class B units') (collectively the 'Partnership units'). Distributable Cash is defined in the Partnership Agreement and generally means net income of the Partnership, adjusted for non-cash items and further adjusted for certain reserves, and is intended to allow the Partnership to retain cash as required to meet its ongoing liquidity and capital requirements.

2. Summary of Significant Accounting Policies

The financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, have in management's opinion been properly prepared within reasonable limits of materiality and the framework of the accounting principles described below.

Cash and short-term investments

Short-term investments with maturities less than three months are considered to be cash equivalents and are recorded at cost, which approximates market value.

Investment in the Cold Lake Pipeline Limited Partnership

The investment in the Cold Lake Pipeline Limited Partnership (the 'Cold Lake Partnership') is accounted for using the equity method as the Partnership has significant influence over the strategic decisions but does not have the ability to exercise joint control.

The carrying value of the investment in the Cold Lake Partnership is lower than the estimated net realizable value.

Capital assets

Pipeline facilities and equipment

Expenditures for system expansion and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation and is provided on a declining balance basis over their estimated service lives, which range from 15 to 25 years. The service life for pipeline systems is determined with reference, together with other factors, to the estimated remaining life of the crude oil reserves expected to be gathered on the particular pipeline systems. Costs related to construction in progress are not depreciated until the asset commences commercial operations.

Deferred receipt facilities expenditures

Expenditures incurred to design and construct crude petroleum receipt facilities on the properties of third party operators, to be owned and operated by the respective third party operators, have been capitalized as they provide a benefit to the Partnership over the life of the contracts with the third party operators. The costs are amortized on a straight-line basis over a three-year period to coincide with the initial three-year term of the agreements with the third party operators. Amortization commences when the facilities begin commercial operations.

Future site restoration and abandonment costs

Pipeline operations will be charged with any costs associated with the future site restoration and abandonment of the pipeline assets. The potential costs of future site restoration and abandonment will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the pipeline assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the cost of abandoning substantial portions of the pipeline assets can reasonably be determined, estimated costs will be provided over the remaining life of the pipeline assets. To date, no provision for such future costs has been recorded.

Income taxes

Under existing tax legislation, the Partnership is not subject to income taxes directly. The limited partners and the General Partner are subject to tax on their proportionate interests of the taxable income allocated by the Partnership.

Measurement uncertainty

The amounts recorded for depreciation of capital assets, amortization of deferred receipt facilities expenditures and the projections of future site restoration and abandonment costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Financial instruments

Financial instruments of the Partnership consist of cash and short-term investments, accounts receivable, Distributable Cash payable, accounts payable and accrued liabilities, bank loans and 10% convertible extendible unsecured subordinated debentures. There are no material differences between the carrying amounts of these financial instruments reported on the balance sheet and their estimated fair values.

The Partnership utilizes derivative financial instruments to manage its exposure to changes in interest rates and power costs. The gain or loss incurred on these instruments is recognized in income in the same period as the hedged transactions are settled.

3. Deferred Capital and Pipeline Inspection Expenditures

On November 27, 1997 certain capital expenditures and a pipeline inspection and repair program were ongoing with respect to the assets acquired from the General Partner. Concurrent with the sale of the pipeline assets to the Partnership, the Partnership paid $30 million to an affiliate of the General Partner to complete the programs on the Partnership's behalf. The capital expenditures have been capitalized to pipeline facilities and equipment and the inspection and repair costs have been charged to expense when the expenditures were made by the affiliate with no cash outlay by the Partnership. The programs were completed in 2002, resulting in a $1.3 million charge to pipeline inspection expenditures and a $1.1 million addition to capital assets.

4. Investment in Cold Lake Pipeline Limited Partnership

The Cold Lake Partnership was organized as a limited partnership under the laws of Alberta on October 5, 2000 to own and operate the Cold Lake Pipeline System, including a significant expansion to the system. The expansion was completed in December 2001 at which time the Cold Lake Partnership commenced commercial operations.

Prior to commencement of operations, one partner agreed to contribute assets (the 'Existing Facilities') to the Cold Lake Partnership upon commencement of commercial operations as well as to commit capital for construction of the new facilities in return for its 70% interest in the Cold Lake Partnership. The Partnership and another party each received a 15% interest in the Cold Lake Partnership by agreeing to contribute capital for construction of the new facilities. After reflecting the contributions of the Cold Lake General Partner, which is owned in approximately the same proportions as the Limited Partnership interests, the ownership structure of the Cold Lake Partnership is as follows:

	(%)
Cold Lake General Partner	**2.0**
Cold Lake Limited Partners	**98.0**
	100.0

The Cold Lake Limited Partnership Agreement gives the Cold Lake General Partner broad powers to manage, control, administer and operate the Cold Lake Partnership and its business and affairs. The Cold Lake General Partner is subject to a Unanimous Shareholders Agreement, which requires that the shareholders act as a "committee of the whole" with each shareholder voting in proportion to their respective shareholder's interest in the Cold Lake General Partner. Major decisions require unanimity or a special majority (at least two shareholders representing more than 75% of the votes or one shareholder representing more than 90% of the votes) while other specifically defined matters require minimum approval (one or more shareholders representing at least 50% of the votes).

The Cold Lake Partnership Agreement provides for cash distributions in the following proportions:

In recognition of its initial contribution of the Existing Facilities, one party receives a priority distribution of cash in the amount it would have received from the contracts that were in place with respect to the assets it contributed (the 'Aggregate Service Contract Award'). To April 2005, the annual amount of this priority distribution is as follows:

	($)
2002	**46,372**
2003	**43,276**
2004	**43,248**
2005	**12,413**

For each year to April 2005, distributable cash in excess of the Aggregate Service Contract Award distribution will be allocated according to the following:

	From Defined Facilities & Excess Volumes (%)	Remaining Distributions (%)	After full recovery of the Aggregate Service Contract Award (%)
70% interest holder	**68.6**	**40.0**	**68.6**
15% interest holder	**14.7**	**30.0**	**14.7**
15% interest holder	**14.7**	**30.0**	**14.7**
Cold Lake General Partner	**2.0**	—	**2.0**
	100.0	**100.0**	**100.0**

The carrying value of the investment in the Cold Lake Partnership is calculated as follows:

	2002 ($)	2001 ($)
Balance, beginning of year	50,289	2,338
Capital contributions	2,301	46,993
Capitalized interest	—	629
Other capital expenditures	2	6
Equity income	8,196	323
Cash distributions received	(296)	—
Initial 15% investment in the Cold Lake Partnership (a)	60,492	50,289
Deferred acquisition costs (b)	4,882	—
Balance, end of year	65,374	50,289

(a) Initial investment in the Cold Lake Partnership, a 15% interest

On October 5, 2000 the Partnership entered into the Cold Lake Partnership by committing to contribute capital in exchange for a 15% ownership interest. The Cold Lake Partnership commenced commercial operations on December 21, 2001.

(b) Acquisition of a 70% interest in the Cold Lake Partnership

On January 2, 2003, the Partnership completed the acquisition of an additional 70% interest in the Cold Lake Partnership for cash consideration of $422.5 million, subject to working capital adjustments. With this acquisition, the Partnership has also become the operator of the Cold Lake Pipeline System. The acquisition was financed with the net proceeds of the issue of the convertible debentures [note 8] and advances under the Partnership's credit facilities [note 7].

The acquisition will be accounted for as a purchase from the closing date of January 2, 2003, and subsequent thereto, the Partnership will account for its investment in the Cold Lake Partnership using proportionate consolidation with the carrying value of the initial investment allocated to capital assets.

At December 31, 2002, the Partnership's carrying value of its investment in the Cold Lake Partnership includes $4.9 million of deferred acquisition costs. These costs will be included in the carrying value of the Cold Lake Partnership upon closing of the acquisition.

(c) Commitment to purchase a further 15% interest in the Cold Lake Partnership

On November 19, 2002, the Partnership entered into an agreement to purchase the remaining 15% interest in the Cold Lake Partnership at the owner's option between April 1, 2003 and September 30, 2003. The economics of this purchase commitment are substantially similar to the acquisition of the 70% interest in the Cold Lake Partnership, which was based on the net present value of the Cold Lake Partnership's estimated long-term cash flow. The Partnership can elect not to purchase the 15% interest at the proposed price, in which case the Partnership would be required to pay $5 million. The Cold Lake Partnership agreement provides the Partnership with a right of first refusal to purchase this additional 15% interest prior to the current owner agreeing to sell it to a third party.

(d) The Transportation Service Agreement

The Cold Lake Partnership has entered into a long-term Transportation Services Agreement ('TSA') with shippers whereby the tariffs charged to the shippers are comprised of an operating fee and a capital fee. The operating fee enables the recovery of the costs to operate the pipeline system while the capital service fee provides a return on invested capital. This TSA is a ship-or-pay contract whereby the shippers must pay the capital fee based on a pre-determined throughput level regardless of the level of shipments. The annual capital fee commitments by the shippers over the next five years are as follows:

	($)
2003	61,361
2004	61,283
2005	44,672
2006	35,407
2007	36,281

The term of the TSA extends until the Cold Lake Partnership forecasts that less than $1 million in capital service fees will be payable over the next twelve months. The shippers must ship all their dedicated petroleum on the Cold Lake Pipeline to December 31, 2011 and thereafter may contract with a third party to transport their dedicated petroleum after giving the Cold Lake Partnership notice of at least 20 months prior to the effective date. The Cold Lake Partnership has the right to match any new service offer from a third party.

The Cold Lake Partnership is required to provide transportation services as outlined in the TSA. The Partnership, being the operator of the Cold Lake Pipeline System, has assumed the obligations of a performance guarantee as well as a commitment to expand and/or extend the Cold Lake Pipeline System's existing service capability at the request of the parties to the TSA. The TSA provides that such requests for service entitle the Cold Lake Partnership to recover all related operating costs and capital expenditures as well as earn a specified rate of return.

5. Capital Assets

2002	Cost ($)	Accumulated Depreciation & Amortization ($)	Net Book Value ($)
Pipeline facilities and equipment	**729,551**	**(220,332)**	**509,219**
Deferred receipt facilities expenditures	**3,065**	**(55)**	**3,010**
	732,616	**(220,387)**	**512,229**

2001			
Pipeline facilities and equipment	715,296	(180,972)	534,324

Pipeline facilities and equipment and deferred receipt facilities expenditures include costs of $0.7 million (2001 – $5.4 million) and $1.1 million (2001 – nil) respectively related to construction in progress for which no depreciation or amortization has been recorded in the current period.

6. Distributable Cash Payable

	2002 ($)	2001 ($)
Cash flow from operations	**53,806**	51,933
Equity income	**8,519**	—
Proceeds on sale of capital assets	**152**	47
Investment in Cold Lake Pipeline Limited Partnership [note 4]	**(7,185)**	(47,628)
Capital expenditures incurred	**(16,340)**	(22,649)
Net financing related to the investment in Cold Lake Pipeline Limited Partnership and capital expenditures	**21,486**	69,172
Other	**4**	—
Cash reserved for interest on convertible debentures [note 8]	**(528)**	—
Reserve to be used for capital projects and future distributions	**(10,023)**	(1,099)
Distributable Cash accrued during the year	**49,891**	49,776
Distributable Cash paid during the year	**(49,776)**	(49,776)
Increase in Distributable Cash payable	**115**	—
Distributable Cash payable, beginning of year	**12,444**	12,444
Distributable Cash payable, end of year	**12,559**	12,444
Distributable Cash declared per Partnership unit	**0.68**	0.68

7. Bank Loans

As at December 31, 2002 the Partnership had $107 million outstanding under certain credit arrangements (2001 – $86.2 million). The applicable interest rates on the amounts outstanding at December 31, 2002 ranged from 4.5% to 6.69%. Cash interest paid during the year totaled $5.3 million (2001 – $1.4 million). These facilities were repaid in full and cancelled on January 2, 2003.

On December 30, 2002, the Partnership entered into a credit agreement aggregating $460 million, comprised of a $125 million Revolving Facility and a $335 million Term Facility, to partially finance the acquisition of a 70% interest in the Cold Lake Partnership and to repay and cancel the Partnership's existing credit facilities. No amounts were drawn on these facilities prior to January 2003.

The $125 million Revolving Facility enables funds to be borrowed, repaid and reborrowed within the revolving period, which currently extends to January 2, 2004. The revolving period may be extended for an additional 364-day period on an annual basis with the agreement of the lenders. If the revolving period is not extended, the facility converts to a non-revolving reducing facility to be repaid in full one year thereafter.

The $335 million Term Facility enables funds to be borrowed on the acquisition of the 70% interest in the Cold Lake Partnership as well as the purchase of a further 15% interest in the Cold Lake Partnership [note 4]. Except for temporary repayments from the proceeds of the Partnership's January 30, 2003 and February 24, 2003 issuances of Class A units [note 9], the Term Facility is a non-revolving facility with unutilized portions cancelled and any amounts repaid permanently reducing the facility. The Term Facility is reduced to $235 million effective January 2, 2004 with the entire facility maturing January 2, 2005.

The credit facilities are collateralized by a first charge on the Partnership's assets. Amounts borrowed through the Revolving Facility and Term Facility bear interest at a floating rate based on bankers' acceptances plus 125 basis points to 250 basis points depending on the ratio of the amount of the Partnership's Debt relative to the Partnership's earnings before interest, taxes, depreciation and amortization ('EBITDA'), as defined in the credit agreement.

The credit agreement contains certain covenants that restrict the Partnership's ability to sell assets as well as limit the Partnership's annual distributions to the cumulative distributable cash, as defined in the credit agreement, for such fiscal year, with quarterly distributions limited to an amount equivalent to the year-to-date distributable cash, as defined in the credit agreement, plus $5 million. In addition, the Partnership has agreed to maintain its Total Debt to EBITDA at an amount less than 4.0 to 1.0 for quarters ending on or before September 30, 2003 and 3.75 to 1.0 for quarters ending thereafter, to maintain its Senior Debt, which excludes any subordinated debt, to EBITDA at an amount less than 3.75 to 1.0 for quarters ending on or before September 30, 2003 and 3.5 to 1.0 for quarters ending thereafter, and to maintain its EBITDA to interest coverage ratio at an amount greater than 3.25, all as calculated pursuant to the credit agreement.

On January 2, 2003, the Partnership used the net proceeds from the convertible debentures ($132.5 million) [note 8] plus advances through the Term Facility ($335.0 million) and the Revolving Facility ($60.4 million) to acquire a 70% interest in the Cold Lake Partnership ($422.5 million less working capital adjustments) and fully repay prior advances under certain revolving credit facilities ($107.0 million). Using the proceeds of the January 30, 2003 and February 24, 2003 issuances of Class A units, these and other advances through the Revolving Facility were reduced to $43.0 million and the advances through the Term Facility were reduced to $256.0 million.

The Partnership has entered into interest rate swap agreements totaling $64 million (2001 – $65 million) with a Canadian chartered bank.

Maturity Date	Fixed Rate Per Annum (excluding applicable margin) (%)	Notional Balance ($)
September 30, 2006	5.41	15,000
December 31, 2011	6.31	15,000
December 31, 2011	6.30	34,000
		64,000

The fair market value of the outstanding swap contracts as at December 31, 2002 results in an unrecognized loss of $3.9 million (2001 – $3.3 million). The notional principal balance of the 6.30% swap amount is reduced by $1 million per year for the term of the arrangement.

At December 31, 2002 the Partnership has issued and outstanding letters of credit in the amount of $1.6 million (2001 – $0.8 million).

8. 10% Convertible Extendible Unsecured Subordinated Debentures

Effective December 18, 2002, the Partnership issued $138.0 million of 10% Convertible Extendible Unsecured Subordinated Debentures (the 'Debentures') for net proceeds of $132.5 million, which were invested in short-term investments at December 31, 2002. The Debentures had an initial maturity date of February 15, 2003.

On January 2, 2003, these proceeds were used to fund the Partnership's acquisition of a 70% interest in the Cold Lake Partnership, and pursuant to the terms of the Debentures, the maturity date of the Debentures has been extended to December 31, 2007.

The Debentures bear interest at 10% per annum, payable semi-annually on June 30 and December 31 of each year, commencing with June 30, 2003. The Debentures are not collateralized and are subordinated to substantially all other liabilities of the Partnership including the Partnership's credit facilities [note 7].

The Debentures are convertible at the option of the holder into Class A units at any time prior to December 31, 2007 at a conversion price of $6.00 per Class A unit. The Debentures are not redeemable before December 31, 2005. From January 1, 2006 to December 31, 2006, the Debentures may be redeemed in whole or in part at the option of the Partnership at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Class A units is not less than 125% of the $6.00 conversion price. Subsequent to December 31, 2006, the Debentures may be redeemed in whole or in part at the option of the Partnership.

At the option of the Partnership, the repayment of the principal amount of the Debentures may be settled with Class A units. The number of Class A units to be issued upon redemption by the Partnership will be calculated by dividing the principal by 95% of the market price. The interest payable may also be settled with the issuance and sale of sufficient Class A units to satisfy the interest obligation. As a result of its ability to settle the principal and interest obligations of the Debentures with the issuance of Class A units, the principal amount of the Debentures has been classified as a component of equity, and the issue costs of $6.0 million and interest costs of $0.5 million have been charged to partners' equity.

Prior to December 31, 2002, $4.1 million of Debentures had been converted into 675,500 Class A units. Subsequent to year-end, an additional $6.6 million of Debentures have been converted into 1,099,164 Class A units [note 9].

9. Partners' Equity

Units issued and outstanding

Authorized

Unlimited number of Class A limited liability units

Unlimited number of Class B unlimited liability units

Issued

	Class A Units (#)	Class B Units (#)	Total (#)
December 31, 2000 and 2001	**37,500,000**	**35,700,000**	**73,200,000**
Conversion on secondary offering, April 25, 2002	35,626,800	(35,626,800)	—
Issued on conversion of debentures	675,500	676	676,176
December 31, 2002	**73,802,300**	**73,876**	**73,876,176**

On November 27, 1997 the Partnership acquired its pipeline assets from the General Partner for cash and 35,700,000 Class B units. At the same time, the Partnership sold 37,500,000 Class A units to the public.

On April 25, 2002, the General Partner converted 35,626,800 Class B units, representing a 48.7% interest in the Partnership, into Class A units and disposed of the Class A units through a secondary offering. As required under the Partnership Agreement, the General Partner retained a 0.1% interest in the Partnership in the form of 73,200 Class B units.

To maintain the required 0.1% interest in the Partnership, the General Partner acquired 676 Class B units, at a price of $6 per Class B unit, as a result of the conversion of debentures into 675,500 Class A units. Subsequent to year-end, the General Partner acquired an additional 1,100 Class B units, at a price of $6 per Class B unit, as a result of a further conversion of debentures into 1,099,164 Class A units [note 8].

Subsequent issuance of Partnership units

On January 30, 2003 and February 24, 2003, the Partnership issued 16,135,000 and 2,420,250 Class A units respectively at a price of $6.20 per Class A unit for net proceeds of $109.3 million. To maintain the required 0.1% interest in the Partnership, the General Partner acquired 18,574 Class B units at a price of $6.20 per Class B unit.

The net proceeds on the issuance of the units were used to repay the Revolving Facility and a portion of the Term Facility [note 7].

Net income per Partnership unit

Net income available to unitholders reflects the deduction of the $0.5 million of interest on the Debentures outstanding, which has been charged to Partners' Equity.

Partnership units share equally on a pro rata basis in the allocation of net income. Although the ending number of Partnership units was 73,876,176, the amounts used in the net income per unit calculation are based on the weighted average number of Partnership units outstanding for the year as follows:

	2002 (#)	2001 (#)
Basic	**73,202,226**	73,200,000
Diluted	**74,083,075**	73,200,000

Unit option incentive plan

On January 9, 2003, the Board of Directors of the General Partner authorized a Unit Option Incentive Plan (the 'Plan') under which options expire on January 8, 2008, with one third of the options vesting immediately on the date of the grant and one third on each of the first and second anniversary dates thereafter. The Partnership has reserved 7,312,680 Class A units for issuance under the Plan. The Board of Directors has granted options, subject to finalization of the terms of the Plan as well as unitholder and regulatory approval, to directors, officers, employees and consultants to purchase up to 2,756,000 Class A units at a price of $6.20 per Class A unit. Had these options been granted to directors, officers and employees of the Partnership at December 31, 2002, there would have been no compensation expense recorded as the options would have been issued at the current market value of the Class A units with no intrinsic value attributed.

10. Related Party Transactions

Revenue includes $2.1 million (2001 – $1.0 million) earned from affiliates of the General Partner in the normal course of operations. These amounts are recorded at their exchange amounts.

Operating and general and administrative expenses include direct costs incurred by the General Partner and its affiliates on the Partnership's behalf and an allocation of operating and general and administrative expenses from those affiliates based primarily on time spent on the activities associated with Partnership operations. Such amounts are incurred in the normal course of operations and are recorded at an estimate of the cost for such expenses.

At December 31, 2002, accounts receivable include $0.2 million (2001 – $0.5 million) owing from the General Partner and its affiliates and accounts payable and accrued liabilities include $1.3 million (2001 – $4.5 million) due to the General Partner and its affiliates. Included in Distributable Cash payable is $12,559 (2001 – $6.1 million) payable to the General Partner due to the ownership of the Class B units.

One member of the Board of Directors was paid $13,100 in 2002, while another member of the Board of Directors was paid $32,400 in 2001, for consulting services provided to the Partnership in the normal course of operations for fair value of the services rendered.

11. Commitments

Minimum lease payments

The Partnership has entered into lease agreements for office space to April 30, 2013. The future minimum lease payments are:

	($)
2003	**842**
2004	**948**
2005	**931**
2006	**902**
2007	**871**
Thereafter	**4,702**
	9,196

12. Income Taxes

As at December 31, 2002, the Partnership had Capital Costs of approximately $264.0 million, including those related to its 15% interest in the Cold Lake Partnership, which are deductible on a declining balance basis at an average annual rate of approximately 8%. In addition, the Partnership has Cumulative Eligible Capital expenditures, which are deductible at a rate of 7% per annum as follows:

	($)
2003	**966**
2004	**899**
2005	**836**
2006	**777**
2007	**723**
Thereafter	**9,605**
	13,806

13. Risk Management

Credit risk management

Credit exposure on financial instruments, which consisted of interest rate swaps, arises from the possibility that a counter-party in which the Partnership has an unrealized gain fails to perform according to the terms of the contract. The Partnership believes the risks of non-performance are minimal as the counter-party is a major financial institution.

Energy prices

The Partnership did not use power derivatives in 2002. During 2001, the Partnership used derivatives to manage the price risk associated with the purchase of its power supply. Operating expenses for the year ended December 31, 2001 include losses of $2.1 million associated with such contracts. The energy price derivative expired on December 31, 2001.

14. Major Customers

In 2002, two customers accounted for 33% (2001 – one customer, 10%) of the Partnership's revenue. The Partnership believes the financial risk associated with these customers is minimal as their credit rating has been affirmed as "investment grade" by public credit rating agencies.

15. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

The following description of the governance practices of the Partnership is made with reference to the guidelines for effective corporate governance adopted by the Toronto Stock Exchange (the 'TSX'). The Partnership endorses the governance principles reflected in the TSX guidelines and considers good governance practices to be an important element in the effective and efficient operation of Canadian public entities. Certain aspects of the Partnership's approach to governance are mandated by laws relating to limited partnerships (including those relating to the potential loss of limited liability if limited partners participate in the control of the business of the Partnership) and the terms of the limited partnership agreement of the Partnership (the 'Partnership Agreement').

In accordance with the Partnership Agreement, the General Partner manages the business and affairs of the Partnership. The Board of Directors of the General Partner is responsible for managing the business and affairs of the General Partner. The Board discharges its stewardship responsibility directly and through its various committees. Management of the General Partner is responsible for the day-to-day conduct of the General Partner's business, subject to oversight by the Board. The President and Chief Executive Officer has primary responsibility for day-to-day operations and for implementing business strategies and policies adopted by the Board. The President reports directly to the Board. The Board retains responsibility for significant changes in the Partnership's affairs on behalf of the General Partner, such as approval of major capital expenditures, financing arrangements, significant acquisitions and divestitures and those limited matters specifically set out in the Partnership Agreement as requiring Board approval. As part of its responsibility, the Board, on behalf of the General Partner, is responsible for the strategic planning process, the identification of principal business risks and ensuring implementation of appropriate risk management systems, succession planning, the communications policy and the integrity of internal control and management information systems.

The composition of the Board is prescribed by the Partnership Agreement, which provides that the Board must be comprised of not greater than seven directors of whom not fewer than four must be Independent Directors, as defined in the Partnership Agreement. Subject to the foregoing, Directors are nominated and elected by Pipeline Assets Corp., the sole shareholder of the General Partner, a corporation controlled by Mr. John A. Driscoll. Messrs. Alfaro, Brussa, Geddes and Milne are the Independent Directors. The Board has concluded that all of the Independent Directors are also unrelated directors within the meaning of the TSX guidelines. Although the other three directors are considered related for purposes of the TSX guidelines because they are employees of entities controlled or managed by Mr. Driscoll or his affiliated entities, they are independent of management of the General Partner. The Board has direct access to management and has the authority to seek advice from independent advisors, as necessary.

There are four committees of the Board: the Executive Committee, the Audit Committee, the Environmental, Health and Safety Committee, and the Compensation Committee.

The Executive Committee has responsibility for, among other things, functioning as the Board of Directors between Board meetings or situations where a quorum of the Board is not otherwise available. Its mandate also includes participating with executive management in developing strategic and operational policy on matters such as financing, acquisitions and divestitures and major operational undertakings for submission, where appropriate, to the full Board. The Executive Committee is comprised of Messrs. Driscoll, Brussa and Errico.

The Audit Committee has responsibility for, among other things, overseeing the nature and scope of the audit and recommending for Board approval the audited financial statements and other mandatory disclosure releases containing financial information, including the quarterly financial statements, and evaluating the accounting and financial reporting policies and internal controls. The Audit Committee is comprised of Messrs. Alfaro, Milne and Vooglaid.

The Environmental, Health and Safety Committee has responsibility for, among other things, monitoring and approving safety, environmental and emergency plans, procedures and controls. The Environmental, Health and Safety Committee is comprised of Messrs. Alfaro, Geddes and Milne.

The Compensation Committee has responsibility for, among other things, assisting the Board by dealing with specific issues which may affect the compensation of senior officers and employees of the General Partner and the application of the compensation philosophy to employees of the General Partner who report through senior management. The Compensation Committee reviews the compensation packages of senior management personnel and makes recommendations on appropriate forms and levels of compensation for such employees to the Board. The Compensation Committee is comprised of Messrs. Alfaro, Driscoll and Errico.

The positions and functions of Chairman and Chief Executive Officer of the General Partner are separate and the Chairman is not an employee of the General Partner.

The Partnership Agreement provides that the Board must be comprised of not more than seven directors. The Board believes that this is an appropriate number of directors for the Partnership and its business.

Matters such as Board orientation and education, Board compensation and corporate governance matters are the responsibility of the Board as a whole.

For 2002 operations, the Partnership declared and paid cash distributions totaling $0.68 per unit. The 2002 taxable income amounts to approximately 54.97% of the total cash distributions. The remaining 45.03% is considered a tax-deferred return of capital.

The following information is provided to assist Partnership unitholders in preparing their income tax returns; however, this information is of a general nature only and is not intended to be legal or tax advice to any particular unitholder. We advise unitholders to seek professional advice.

Partnership units held within an RRSP, RRIF or DPSP No amounts are required to be reported for taxation purposes if the units are held within a RRSP (Registered Retirement Savings Plan), RRIF (Registered Retirement Income Fund), or DPSP (Deferred Profit Sharing Plan).

Partnership units held outside an RRSP, RRIF or DPSP Individual unitholders are taxable on their share of the Partnership's income for tax purposes. The amount of income allocated to a unitholder may be more or less than the amount of cash distributed to the unitholder during the year. For tax purposes, taxable income allocated to a unitholder will increase the carrying value of the cost base of the unitholder's investment in the Partnership.

Adjusted cost base of partnership units The adjusted cost base is used in calculating the capital gain or loss on the eventual disposition of the Partnership units held as capital property by the unitholder. When an individual unitholder disposes of their investment in the Partnership, a capital gain or loss may arise. A capital gain or loss is determined by subtracting the adjusted cost base of the Partnership units from the proceeds (net of selling commissions) of disposition.

To arrive at the adjusted cost base of the unitholder's investment in the Partnership, subtract the cumulative amount of all cash distributions received from the original cost of the investment (including any broker fees incurred on acquisition), then add the taxable income allocated and reported by the unitholder in the current and prior tax returns.

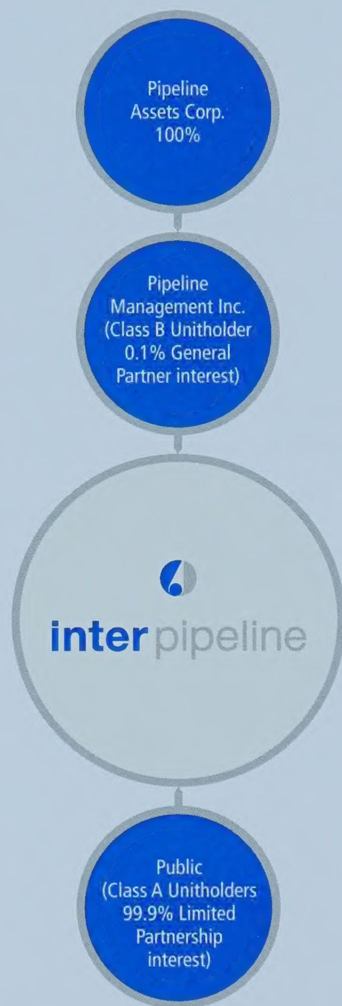
Record Date	Payment Date	Cash Distributions Per Unit ($)	Allocation of Income for Tax Purposes Per Unit ($)	Return of Capital Per Unit ($)
March 31, 2000	April 28, 2000	0.16	0.077	0.083
June 30, 2000	July 31, 2000	0.16	0.077	0.083
September 29, 2000	October 31, 2000	0.17	0.082	0.088
December 29, 2000	January 31, 2001	0.17	0.082	0.088
Total 2000:		**0.66**	**0.318**	**0.342**
March 30, 2001	April 30, 2001	0.17	0.062	0.108
June 29, 2001	July 31, 2001	0.17	0.062	0.108
September 28, 2001	October 31, 2001	0.17	0.062	0.108
December 31, 2001	January 31, 2002	0.17	0.062	0.108
Total 2001:		**0.68**	**0.248**	**0.432**
March 29, 2002	April 30, 2002	0.17	0.093	0.076
June 28, 2002	July 30, 2002	0.17	0.093	0.076
September 30, 2002	October 30, 2002	0.17	0.093	0.076
December 31, 2002	January 30, 2003	0.17	0.093	0.076
Total 2002:		**0.68**	**0.374**	**0.306**

For information on previous years, please visit our website at www.interpipelinefund.com.

Inter Pipeline Fund is a publicly traded limited partnership that owns and operates four feeder pipeline systems located in southern Alberta and southwestern Saskatchewan. Totaling approximately 4,100 kilometres in length, these systems comprise one of the largest crude oil feeder pipeline businesses in Canada. In addition, Inter Pipeline Fund owns 85% of the Cold Lake Pipeline Limited Partnership which owns the Cold Lake Pipeline System. Inter Pipeline Fund is the operator of the Cold Lake Pipeline System, Canada's largest heavy oil gathering system, consisting of over 900 kilometres of heavy blend and condensate pipelines. In 2002, the pipelines had an average throughput of 215,100 barrels per day of crude oil and condensate.

The general partner of Inter Pipeline Fund is Pipeline Management Inc., a wholly-owned subsidiary of Pipeline Assets Corp., an Alberta company controlled by John F. Driscoll, Toronto, Ontario.

As at February 28, 2003
– Class A units issued: 93,456,714
– Class B units issued: 93,550



Board of Directors

John F. Driscoll [2,4]
Toronto, ON
Chairman of the Board
JF Driscoll Investment Corp.

H. (Bert) Alfaro [1,3]
Calgary, AB
Independent Businessman

John Brussa [4]
Calgary, AB
Partner
Burnet, Duckworth & Palmer

Jeffery E. Errico [2,4]
Calgary, AB
President and Chief Operating Officer
NCE Petrofund

J. Howard Geddes [3]
Calgary, AB
Independent Businessman

J. Lindsay Milne [1,3]
Calgary, AB
Independent Businessman

John Vooglaid [1]
Toronto, ON
Vice-President, Chief Financial Officer and Treasurer
Sentry Select Capital Corp.

1 member of the Audit Committee
2 member of the Compensation Committee
3 member of the Environmental Health and Safety Committee
4 member of the Executive Committee

Officers

John F. Driscoll
Chairman of the Board

David W. Fesyk
President and CEO

Robert W. Fotheringham CA
Chief Financial Officer

Christian P. Bayle
Vice-President, Operations

Scott D. Gerla CA
Vice-President, Finance

Mark P. Ward
Vice-President, Corporate Development

Katherine E. Sibold
Senior Legal Counsel and Corporate Secretary

Head Office

2600, 237 – 4th Avenue SW
Calgary, Alberta T2P 0H4

Telephone: (403) 290-6000

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Suite 600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8

Telephone: 1-800-564-6253
Facsimile: 1-866-249-7775
Email: caregistryinfo@computershare.com

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Class A units trade under the symbol IPL.UN
10% Convertible Extendible Unsecured Subordinated Debentures trade under the symbol IPL.DB

Investor Relations Contact

Mark Ward
Vice-President, Corporate Development

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Email: investorrelations@interpipelinefund.com
Website: www.interpipelinefund.com

Abbreviations

Bbl	barrel(s)
MMbbl	million barrels
Bbl/d	barrel(s) per day
WTI	West Texas Intermediate
Mbbl/d	thousand barrels per day
MWh	megawatt hour
MMBTU	millions British thermal units
km	kilometres

Design: Karo Copywriting: Lynn LaForge-Tiernan Photos: Gerard Yunker

This annual report and Management's Discussion and Analysis ('MD&A') contain "forward-looking statements". Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend", or similar words suggesting future outcomes. Forward-looking statements are made regarding outlooks with respect to crude oil throughput volumes and rates, levels of drilling in service corridors, supply and demand for oil, treatment under regulatory regimes, distribution levels, capital expenditures and access to capital and the manner in which the financial results of the issuer may be impacted. You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections or other forward-looking statements will not occur. Although Inter Pipeline believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Actual results could differ materially from those anticipated as a result of many risk factors, such as volatility in market prices for crude oil and light to heavy crude oil price differentials, competition, or incorrect assessments of the value of acquisitions. These factors should not be construed as exhaustive. The forward-looking statements contained in this annual report are made as of the date of this report and Inter Pipeline Fund undertakes no obligation to publicly update or revise any forward-looking statements.

Only persons who are residents of Canada or, if partnerships, are Canadian partnerships, in each case for purposes of the Income Tax Act (Canada) are entitled to purchase and own Class A units and 10% Convertible Extendible Unsecured Subordinated Debentures ('Debentures') of Inter Pipeline Fund. Persons an interest in which would be a "tax shelter investment" for purposes of the Income Tax Act (Canada) are also prohibited from purchasing and owing Class A units and Debentures. Class A units constitute "foreign property" for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans under the Income Tax Act (Canada). The Debentures are not qualified investments under the Income Tax Act (Canada) and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

inter pipeline

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